ITW Food Equipment Group

Safety & Environmental Department

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April 3, 2001

APR 12 2001

U.S. Environmental Protection Agency
Deena Sheppard-Johnson, SR-6J
Remedial Enforcement Support Section
77 West Jackson Blvd.
Chicago, Illinois 60604

RE: The Chemical Recovery Systems Site, Elyria, Ohio
General Notice of Potential Liability and Request for Information

Dear Ms. Johnson,

This document has been prepared as directed in your letter dated March 2, 2001, in reference (RE:) to the Chemical Recovery Systems Site, Elyria, Ohio. Your letter was directed to Hobart Corporation, 2548 Stanley Avenue, Dayton, Ohio 45404

On Friday, March 16, we were in contact with Mr. Thomas Nash who is handling legal questions pertaining to this site. We requested from Mr. Nash information as to how EPA obtained this facility address in connection with the CRS site. Mr. Nash could not confirm the method used to obtain addresses, but confirmed this Hobart facility address was not noted on any CRS documents or provided by former employees.

Pursuant to Section 104 (e), Comprehensive Environmental Response Compensation and Liability Act the following information is being provided. Hobart Corporation, 2548 Stanley Avenue, Dayton, Ohio contends that U.S. EPA has listed this address in error. Nevertheless this document will address all questions listed. Before doing so we would like to provide a brief description and history of Hobart Corp., 2548 Stanley Avenue:

Description:

This facility (Hobart Service, 2548 Stanley Avenue, Dayton, Ohio) is located in the City of Dayton, Ohio. The building and grounds are under lease from Kuntz Corporation, 4472 Lotz Road, Kettering, Ohio, since January of 1968. The building is 8,400 sq. ft. , and employees 22 people.

This facility is a Service Branch for Hobart Corporation. Hobart manufacturers a commercial line of food machines and equipment. This location is the 'home-base' for service technicians that provide mobile service to customers in West-Central Ohio. The facility also has a small stockroom area and storage space. This facility has never been a Hobart manufacturing facility. It is inconceivable that the amount of waste alleged could have been generated from this operation.

Materials Stored / Generation of Waste:

This location has a status of 'small quantity generator-conditionally exempt'. Small quantities of Waste Combustible Liquid, NA1993, D001, are generated from cleaning & painting within the facility. This spent material has been sent to Safety-Kleen Corp. for disposal since 1994. Prior to 1994 the material was transported and processed by Clark Processing, Inc., Dayton, Ohio (OHD004274031). Employees state that this site generates on the average of 100 gallons of this type of waste per year. Waste oil from repair/servicing of our equipment is also generated in quantities of less than 200 gallons per year. The oil wastes were sent to Clark Processing, Dayton, Ohio from 1968-1994. From 1994 to present oil wastes are transported and processed by Safety-Kleen Corp., Tipp City, Ohio branch.

The facility also has a small parts cleaning station used for cleaning tools. The parts cleaning station is owned and serviced by Safety-Kleen Corporation. Safety-Kleen removes the spent material, which is transported to Safety-Kleen for reclamation.

Summary

This location is a small service branch for our equipment. The remainder of this document will answer questions regarding management and employee contacts regarding current and past practices at this facility.

I certify under penalty of law that this document and any attachments were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gathered and evaluated the information submitted.

Based upon my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is, to the best of my knowledge and belief, true, accurate, and complete. I am aware that there are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations.

Sincerely,

Steve Adams

Steve Adams
Manager Safety & Environmental

ANSWERS
ATTACHMENT #2 QUESTIONS

1) **Persons contacted:** Paul Doyle, Regional Manager, 13 years of service
Gary Maggart, Service Manager, 33 years of service
Steve Adams, (Troy, Ohio), 31 years of service

2) **Document review**: No internal documents link Hobart to CRS

3) **Other person with info**: None known

4) **EPA Identification #:** OHD000311571

5) **Acts or omissions:** None

6) **Knowledge of CRS:** No employee has any knowledge or recollection of names of people transporters or company names listed in question 7 regarding Obitts Chemical Company or Chemical Recovery Systems, etc.

7) **Listed Names:** No knowledge or contacts with those listed

8) **Dates of Use:** CRS site was not used by Hobart Dayton Branch

9) **Persons Making Arrangements with CRS Site**: No use of the CRS Site

10) **Liability Insurances:** This site is a leased location

11) **Copies of Income Tax Returns**: The location listed is a branch location of Hobart Corporation a wholly owned subsidiary of Illinois Tool Works Inc. (a Delaware Corporation). A copy of the annual report is attached.

12) **Articles of Incorporation:** See information on line #11

STATE OF OHIO)
) SS:
COUNTY OF MIAMI)

On the 3rd day of April, 2001, before me a Notary Public in and for said State, duly commissioned and sworn, personally appeared Steve Adams, Manager, Safety & Environmental, who executed the within instrument and acknowledged to me that such was his free act and deed, and the free act and deed of Hobart Corporation and ITW Food Equipment Group.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

Vicki L. Lade

Notary Public

VICKI L. LADE, Notary Public
In and for the State of Ohio
My Commission Expires Mar. 17, 2006

We apply the 80/20 process to everything we do

Illinois Tool Works Inc. 2000 Annual Report Miller Parts and Consumables. Ampang Industries. Welding Industries. Deltar Release Systems. Automotive Finishing. Linx . Automotive Products. B & L Plastics. Signode Metals. Gerrard Strapping. De Argentina S.A. Maple Roll Leaf. Befestigungssysteme SPIT-Impex/Crones. Elettro. Bevestigingssystemen. Miller Component Products. Burseryds Bruk. Capseals Unipac. Miller Electric. Cargo Safe. Erg. Magnaflux. Container Strapping. Dacco Industries. Foxjet. Decorative Sleeves. Deltar - Engineered Fasteners. Hobart International. Deltar - Tekfast. Electronic Component Packaging Systems. Electronic Packaging. Austex Techflow. Elematic. Elga. Miller Electrical Components. Eltex Elektrostatik. Endra. Packaging Brands. Engineered Coatings Europe. Weldwell. Envases Multipac. Etilab. Canguru Rotulos. Eurofoil. Miller Performance Engine Drive. Expandet. Fastex Industrial. Fastex OEM & Appliance. Fibre Glass-Evercoat. Automotive Italia. Filtration Products. Finishing Systems and Products. Finishing Technologies. Anchor Stampings . Fixfast. Baxter Manufacturing. Fixlock. Flejes Misa. Florida Tile. Fluid Products. Automotive Refinishing. Foamseal. Hanson Porcelain. Haugk. Heartland. Heistrap. Henschel. Hi-Cone. Highland. Hobart Brothers. Danband Products. Hobart Corporation. Hobart Culiacan. Signode Machines. Hobart Dayton Mexicana. Shakeproof/Automotive Products. Comet Fastener. Appliance Group Europe. Hobart DO Brasil. Hobart Food Equipment. Hobart Foster. Hobart Ground Power. Meritex. SIMA Industri. Betaprint. Fluids and Polymers. Balance Engineering. CIP. Befestigungssysteme Paslode/Duo-Fast. Hobart Manufacturing. Decorating Resources. Trilectron Industries. Hobbs Fasteners. Hofmann Industrial. Davall Gear. Surfaces & Finitions. Coding Products. Auto-Sleeve. Magnaflux Imaden. Holographic and Specialty Products. Midwest Industrial Packaging. Topit Services Systemes. I. Kela. ICI Products. IMPRO. IMSA Signode. Components & Tools. Mav. Industrial Finishing. Bedford Wire. Magna Industrial. AXA Power. Deltar Components. Spec Cyclop Strapping. Dayton Metal Components. Shakeproof Industrial Products. Insert Businesses. Interstrap. Duo-Fast. ITW Limited. Dykem/Dymon. Electro Static Technology. Electronic Component Businesses. Ispra Controls. Ispraflex. iZone. James Glen Pty. Tempil. Jeju Industries. Jemco. Cyclone Industries. Specialty Films. Jetline Engineering. Kairak. Compagnie Hobart. Metalflex. CS Packaging. Leitzke Manufacturing. Specialty Components and Machinery. Caritech. ITW D.O.O. Furniture Systems and Components. Buildex. Lyn Fusion. Produx. Strapex. Gaylord Industries. Cema Maschinenfabrik. Chemische Produkte. Chronotherm. Enrotec. Thielex. Stanley Knight. Foster Refrigerator. GEMA. Polymex. Three-Phase Systems. Donovan. Wolf. Signode Steel Strapping Operations. DEK. Micro Poise. Welding Nozzle. Bailly-Comte. Signode Distributor. Bee Industries. Gerrard Signode. Asia (PTE.) Ltd. Mima. Drawform. Graphics. Grawo. Construction Products. Gunther. DeVilbiss. H.A. Springer. Adamatic. Dynatec. Wittco Foodservice Equipment. Corporacion Coral. Haloila Oy. Devcon. Signode France. Miller Light Industrial Products. Tomco. Miller Plasma Products. Deltar Body & Seat Components. Anchor Fasteners. Trident. Chemicals Scandinavia. Valeron Strength Films. Trimark. Shippers Paper Products. Thermal Films. Miller Portable Power Products. Chronomatic. Dellas. Miller TIG Industrial Products. Compular. Traulsen. Chemtronics. MMP. Signode Consumables. Nexus. ITW Brands. Miller Canada. National Torch Tip . SPIT. ITW De France. Nexus. Nifco. Angleboard. Norwood Marking Systems. Arborite. Nutmeg Eyelet & Stamping. CPM. Oberflachentechnik. Orex. Orgapack. Smith Equipment. Pack-Band Hagen. Delpro. Signode Special Products. Padlocker. Paktron. Pancon. Signode Packaging Systems. Paslode. Mollart Universal Joints. Performance Polymers. Simco. AMP. Pillar Technologies. Piqua Operations. Advanced Technology Systems. Poly Recycling. TACC. Polycraft. Formex. Polymer Castings. Signode Container Polymer Coatings and Grouts. Signode Coilmaster. Polymers and Fluids. PMC Cranfield. Precor. Pro/Mark. Produits Chimiques. Produtos De Construcao Brasil. Cumtex. Proffitt Automotive Components. SMF. Promotoria. Quality Measurement System. Akron Standard. Ramset Fasteners. Deltar Engineered Components. Ramset/Red Head. Ransburg Electrostatic Systems. AIM Components. Reddi-Pac. Richmond Technology. Ride Quality Products. Rivex. Rocol Lubricants. Rocol Site Safety Systems. Roxs Foils. Samjung Signode. Wilsonart Component Products. Minigrip/Zip-Pak. Scanprint. Austria Vertriebsgesellschaft. Shakeproof Assembly Components. Shanghai ITW Plastic & Metal. LPS Laboratories. MBM. Signode Industrial Packaging Systems. Madag/ITW Giulianelli. Fastex Distribution. Mark-Tex. Liljendals Bruk. McMurdo Connectors. Deltar Fasteners. Medalist. Specialty Products. Miller Industrial Engine Driven Products. Miller Mechanical Components. Siewer. Loveshaw. Signode Consumable Plastics. Plastiglide. Signode Engineered Products. Signode Service/Parts Business. Somat. Specialty Packaging-Paper. Static Control and Air Products. Morlock. Stretch Packaging Systems. Switches. Meyercord. West Bend. Tien Tai Electrode. Ridder. Toolmatic. Trans Tech America. United Silicone. Veneta Decalcogomme. Reddi-Crate. Vortec. Vulcan-Hart. Welding International. Welding Products. Wilsonart Custom Products. Wilsonart International. Spiroid. Workholding. Plexus. Worldwide Appliance Fasteners and Components. Accu-Lube Manufacturing. Philadelphia Resins. Stero. Paper Products Europe. Accu-Lube/Rustlick. Service Inc. MCP New Zealand. American Safety Technologies. Resopal. AMI/Recpro. Deltar I.P.A.C. SPL Group. ITW Leasing & Investments.

ITW

ITW at a Glance

Illinois Tool Works (ITW) designs and produces an array of highly engineered fasteners and components, equipment and consumable systems, and specialty products and equipment for customers around the world. A leading diversified manufacturing company with more than 85 years of history, ITW's nearly 600 decentralized business units in 43 countries employ approximately 55,000 men and women who are focused on crafting value-added products and innovative customer solutions.

	1996	1997	1998	1999	2000
Revenues in Billions of Dollars	7.3	7.6	8.4	9.3	10.0
Number of Businesses	**310**	**368**	**412**	**488**	**592**

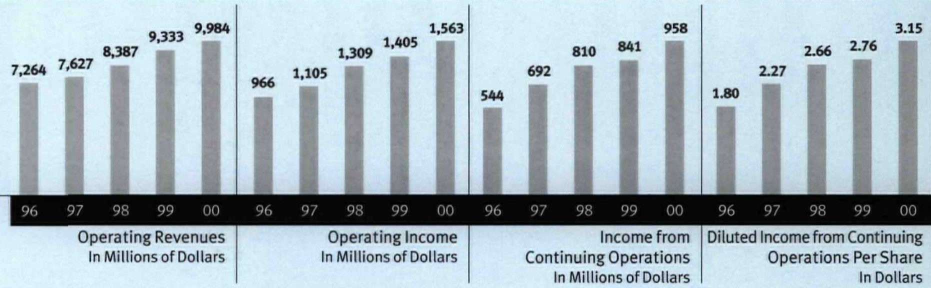
	Product Categories	**Major Brand Names**	**Primary End Markets**
Engineered Products North America  	Short lead-time plastic and metal components and fasteners, and specialty products such as polymers, fluid products, and resealable packaging	Anchor, Buildex, Chemtronics, Deltar, Devcon, Duo-Fast, Fastex, Foamseal, Medalist, Minigrip/Zip-Pak, Paslode, Plexus, Ramset/Red Head, Shakeproof and Wilsonart	Construction, automotive, general industrial and consumer durables
Engineered Products International  	Short lead-time plastic and metal components and fasteners, and specialty products such as polymers, fluid products, and electronic component packaging	Buildex, Deltar, Fastex, Henschel, Highland, Ispra, Jemco, Magnaflux, Meritex, Nexus, Plexus, Pulsa, Ramset/Red Head, Shakeproof and SPIT	Automotive, construction, general industrial, consumer durables and electronics
Specialty Systems North America  	Longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial finishing	Angleboard, BGK, Dynatec, Hi-Cone, Hobart, Loveshaw, Miller Electric, Norwood Marking, PRO/MARK, Ransburg, Signode, Traulsen, Trident and Vulcan	Food retail and service, general industrial, construction, and food and beverage
Specialty Systems International  	Longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial finishing	Auto-Sleeve, DeVilbiss, Dynatec, Eurofoil, Gema, Grawo, Gunther, Hi-Cone, Hobart, ITW Foils, Mima, Orgapack, Signode and Simco	Food retail and service, general industrial, food and beverage, and construction
Consumer Products  	Specialty exercise equipment, small electrical appliances, cookware and ceramic tile	Precor, West Bend and Florida Tile	Consumer durables and construction

Leasing and Investments

This segment makes opportunistic investments in mortgage-related assets, leveraged and direct financing leases of equipment, properties and property developments, and affordable housing.

Financial Highlights

ITW Growth



Dollars in thousands except per share amounts	2000	Change From 1999	1999	Change From 1998	1998
Year Ended December 31					
Operating revenues by segment:					
Engineered Products — North America	$3,184,033	7%	$2,964,782	16%	$2,562,324
Engineered Products — International	1,516,202	15	1,321,658	28	1,036,342
Specialty Systems — North America	3,337,387	6	3,161,435	9	2,904,662
Specialty Systems — International	1,729,559	8	1,599,988	1	1,581,857
Consumer Products	483,036	(4)	501,224	3	488,634
Leasing and Investments	154,277	(2)	157,385	5	149,748
Intersegment revenues	(420,917)	13	(373,287)	11	(336,596)
Total operating revenues	9,983,577	7	9,333,185	11	8,386,971
Operating income by segment:					
Engineered Products — North America	$610,321	9%	$561,742	18%	$477,547
Engineered Products — International	153,792	16	132,808	4	127,260
Specialty Systems — North America	559,738	4	537,555	15	468,352
Specialty Systems — International	169,705	10	154,022	(1)	155,110
Consumer Products	(14,016)	(191)	15,326	19	12,925
Leasing and Investments	83,897	(1)	84,931	26	67,552
Premark merger-related costs	—		(81,020)		—
Total operating income	1,563,437	11	1,405,364	7	1,308,746
Net income	$957,980	14%	$841,112	4%	$809,747
Cash dividends paid	$223,009	21%	$183,587	22%	$150,934
Per Share of Common Stock					
Net income:					
Basic	$3.18	14%	$2.80	4%	$2.70
Diluted	3.15	14	2.76	4	2.66
Net income excluding Premark charges:					
Basic	$3.36	11%	$3.04	13%	$2.70
Diluted	3.33	11	2.99	12	2.66
Cash dividends paid	$ .74	21%	$ .61	22%	$ .50

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To Our Shareholders

When talking with our shareholders and the investment community, as well as our customers and the people in our nearly 600 business units, an everyday topic is our 80/20 process. During the past 20 years, ITW's version of 80/20 has evolved from a way of improving production methods to a process we apply to virtually everything we do. The basic tenet of 80/20 is quite simple: build your business around the 20 percent of your customers who represent 80 percent of your revenues. The difficult part, and what our people do so well, is taking this simple premise and making it work effectively and efficiently in all aspects of our businesses. If you think of ITW with its operations around the world as an integrated network, then our 80/20 process is the vital piece of software that helps keep that network running smoothly and profitably.

Financial Performance The corporate-wide application of this process has helped to produce a series of successful years for ITW and puts us in a strong position to continue our well documented financial track record. Our financial performance last year bears this out. In what developed into a challenging 2000 for most companies in the latter part of the year, our record revenues for the full year were up 7 percent to $10 billion. Acquisitions accounted for 8 percent of that growth and the base businesses grew 2 percent, offset by a 3 percent decline from currency translation. The impact of the Euro proved particularly troublesome in 2000.

Our record operating income for the year outpaced revenue gains—increasing 11 percent to $1.56 billion versus $1.41 billion in 1999—and our operating margins in 2000 improved to 15.7 percent even as many of our end markets slowed late in 2000. We remain bullish about future margin growth, especially when you consider

From left to right: Philip M. Gresh, Jr., executive vice president; Hugh J. Zentmyer, executive vice president; W. James Farrell, chairman and chief executive officer; David T. Flood, executive vice president; Russell M. Flaum, executive vice president; David B. Speer, executive vice president; James M. Ringler, vice chairman; Jon C. Kinney, chief financial officer; Frank S. Ptak, vice chairman; Thomas J. Hansen, executive vice president; Dennis J. Martin, executive vice president; Allan C. Sutherland, senior vice president.

that more than $5 billion of revenues for the year were a result of businesses acquired over the last three years. The average operating margin of these businesses, at acquisition, was in the range of 8 percent to 9 percent and our process takes up to five years to move these margins up to our corporate average. As a result, we believe there is significant potential for margin enhancement in our current businesses.

Net income for the year reached a record $958 million and net income per share was $3.15, both 14 percent increases versus 1999. Our 2000 earnings per share included 18 cents of asset writedowns and restructuring charges at the former Premark operations compared to the one time charge of 23 cents in 1999. We continue to invest in 80/20 initiatives at the Food Equipment and Wilsonart businesses. In fact, we realized a nearly 2 percent increase in the operating margins of the combined Premark operations in 2000, which puts us on schedule to achieve our stated plan to improve operating margins from 9 percent in 1999 to 18 percent by 2004. We believe the benefits from investments made in these businesses during 2000 will result in an earnings contribution of 10 cents per share in 2001.

Looking Ahead Our core businesses had a strong first half of 2000, but sales weakened later in the year as a result of general slowing in the U.S. economy. The North American markets are expected to continue to slow in 2001, before picking up in the second half of the year. We believe that successfully managing a company includes charting the right course in both good times and bad. Even with a slowing economy, we continue to be opportunistic and make "bottom up" acquisitions designed to add businesses directly related to, or that can be readily integrated into, existing product lines or markets. In

2000, 45 such acquisitions added slightly more than $1 billion in sales, most notably Siddons Ramset Limited (construction) in Australia and A. J. Gerrard (industrial packaging) in the United States.

As we plan for the future, we see significant growth opportunities for ITW. Today, we are in a much better competitive position than we were during the last economic downturn in 1991. The underpinnings for our success continue to be our emphasis on product development, which yields value-added goods that meet very specific customer needs. As a result, we market much broader product lines, sell to a significantly wider range of end users and have more balanced sales distribution between the U.S. and overseas compared to 10 years ago. We continue to enjoy strong growth rates in sales, margins and earnings, due in large part to greater market penetration and a better mix of existing and acquired businesses.

Before ending this review of the first year of the new millennium, we want to thank and extend our best wishes to several members of our management team who have helped make possible our record of successes. Ron Seager and Tom Mann have retired after each serving more than two decades with ITW. Ron, who was executive vice president of the consumer packaging and decorating businesses, was succeeded by newly named executive vice president Phil Gresh. Tom's most recent role was president of our decorating businesses. We thank both Ron and Tom for their many contributions over the years. David Flood was also elected to the senior management team in 2000 to the position of executive vice president of our polymers, fluids and machined components businesses.

This year we became a 10 billion dollar company

We also welcomed hundreds of new individuals to the ITW family during the past year, helping us further build a team which daily meets the needs of thousands of worldwide customers. No matter what the state of the economy and the competitive environment, we are confident that the members of our team will continue to serve customers successfully. As a result, ITW will continue to be a winner, both as a place to work, and as a company to do business with and in which to invest.

Frank S. Ptak Vice Chairman	W. James Farrell Chairman and Chief Executive Officer	James M. Ringler Vice Chairman

February 28, 2001

The birth of ITW's 80/20 process dates back to the early 1980s when a handful of our businesses sought ways to improve manufacturing practices so they could stay competitive in an economy which was transitioning from growth through inflation to growth via market penetration. The early ITW successes were on the manufacturing floor with the likes of in-lining and production cells. 80/20 then evolved into a process of evaluating and integrating acquisitions with the

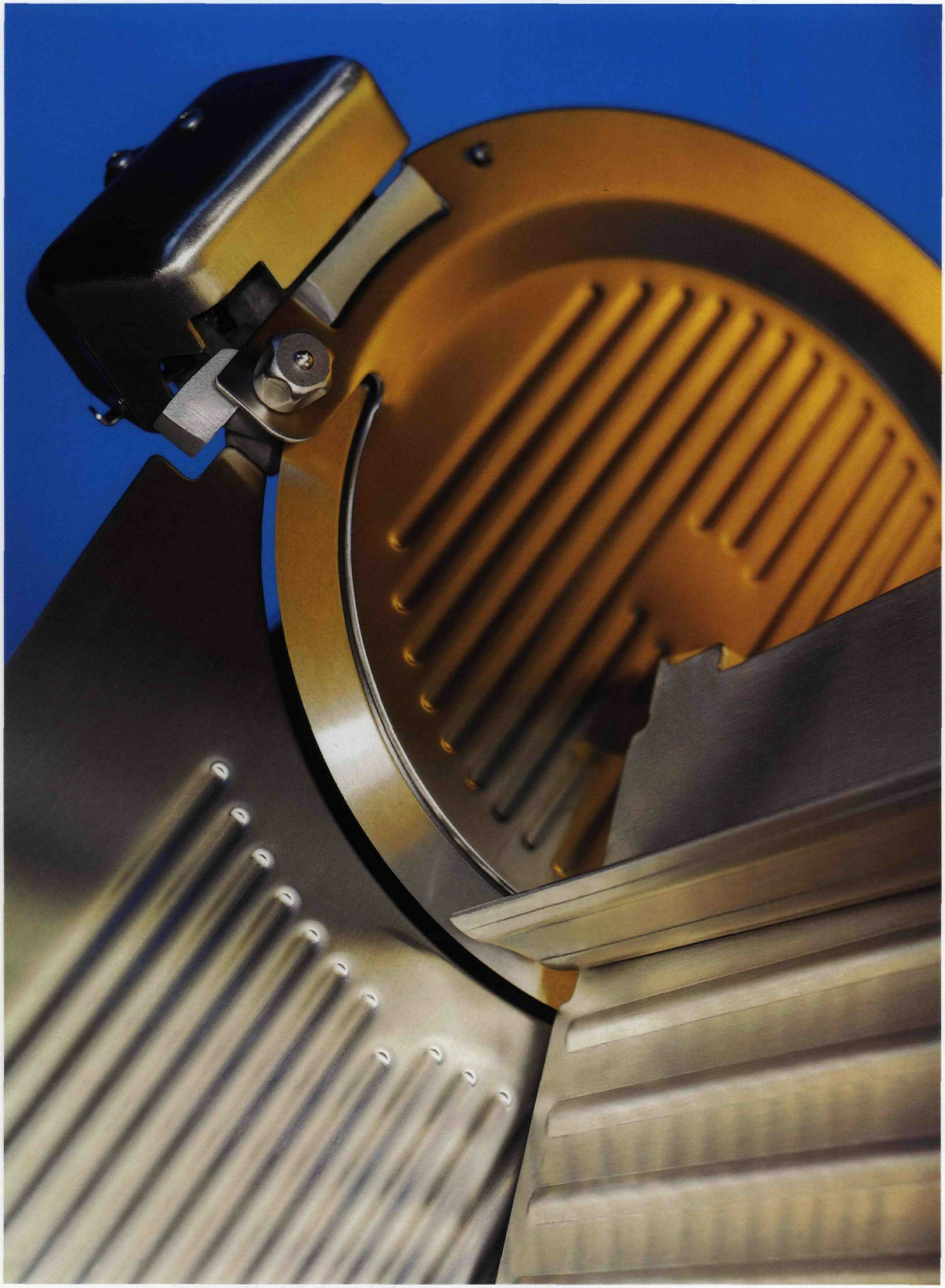
80/20 process

purchase of Signode in the mid 1980s. Today, after nearly 20 years of expansion and refinement, ITW has assembled a comprehensive 80/20 body of knowledge which is vital to our success. It's part of the annual review and planning process each of our nearly 600 business units undertakes, and plays a critical role in our ongoing and highly successful acquisition activity.

The concept underlying 80/20 is simple: 80 percent of a business' sales are derived from the 20 percent of its product offerings being sold to key customers. Put simply, too often companies do not spend enough time on the critical 20 percent of their key customers and products and too much time on the less important 80 percent.

This process is really about simplifying and focusing on the key parts of your business. Simplicity focuses action, while complexity often blurs what is important. Complexity creates overhead, while simplicity removes it. In the process of simplification, we view all areas of the business on an 80/20 basis. This includes finding ways to simplify our product lines, customer and supply base, business processes and systems. In the end, 80/20 improves quality, productivity, delivery, innovation, market penetration, and ultimately, customer satisfaction. As a result, virtually all aspects of financial performance are improved.

While productivity enhancement is a primary goal of the 80/20 process, over the long haul you can't win simply by being efficient. Product development and innovation are important and natural outcomes of the process. By focusing on the needs of key customers, we target value-added product opportunities. Change is a fundamental part of the markets we serve and each product or design change presents us with a new opportunity to apply our 80/20 process. This process has brought us to a place where we believe, and our customers tell us, that ITW is the best at responding to their needs. The following case studies, which illustrate seven of the thousands of 80/20 stories in progress every day at our businesses around the world, are good examples that this process is flourishing at ITW.

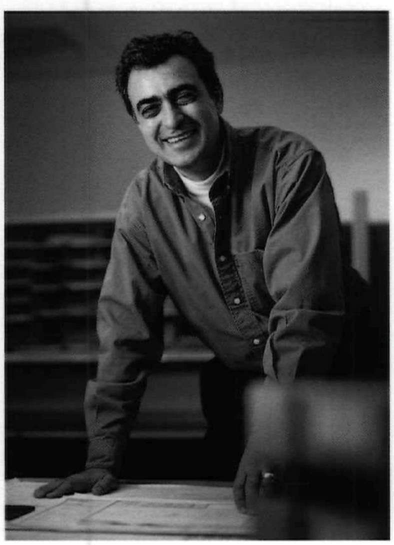


The 80/20 process has successfully streamlined every aspect of Hobart Corporation's *2000 Series* food slicers. Utilizing 80/20 analysis, standardized components and advanced manufacturing principles, the redesigned product line features significantly fewer

simplifying product

parts per machine while offering more standard features. The model *2912SC* slicer has approximately 30 percent fewer parts than its predecessor.

Shahram Shariff, principal engineer at Hobart Corporation, moved from advanced manufacturing to design engineering for the Slicer Development and Product Support team. His manufacturing experience served him well in leading a cross-functional team in the design and manufacturing start-up of the award-winning 2000 Series slicers.



A thorough analysis of the 2000 Series found that in 1998 and 1999 less than one percent of total sales were derived from 34 of the 63 models offered. The 2000 Series now offers only 29 individual devices. Within the 2912 line, which is Hobart's fastest-growing food slicer product, the 80/20 principles of focusing on key clients and significant growth opportunities mean the total number of models offered was reduced from 20 to the nine that accounted for 99 percent of sales.

Manufacturing and support functions at the Richmond Hills, GA, plant, home of the Hobart 2000 Series, were decentralized to create a more focused and flexible in-line production operation. The creation and configuration of machining and manufacturing cells in close proximity, implementation of visual production scheduling and utilization of vendor inventory management techniques have combined to increase productivity dramatically. Daily capacity of 2000 Series food slicers is up 60 percent while the labor component required for each machine was reduced by nearly 20 percent.


BEYOND FAST...
TRAK FAST
AUTOMATIC DRYWALL TRACK FASTENING SYSTEM
ITW Ramset/Red Head

As ITW expands internationally, innovative products continue to find new markets. A prime example of this is the Ramset *TrakFast* fully automated, cordless tool. Introduced in the United States in 1992, the tool can drive two fasteners per second

new markets

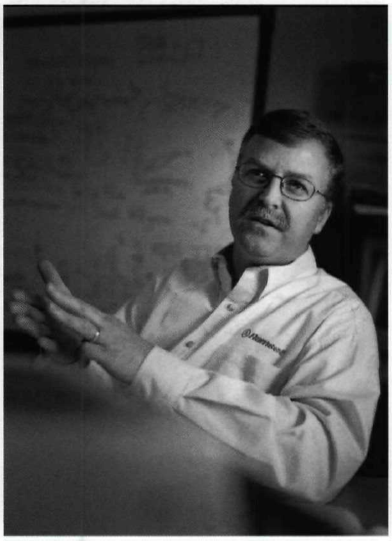
through metal drywall track into concrete, block and steel.

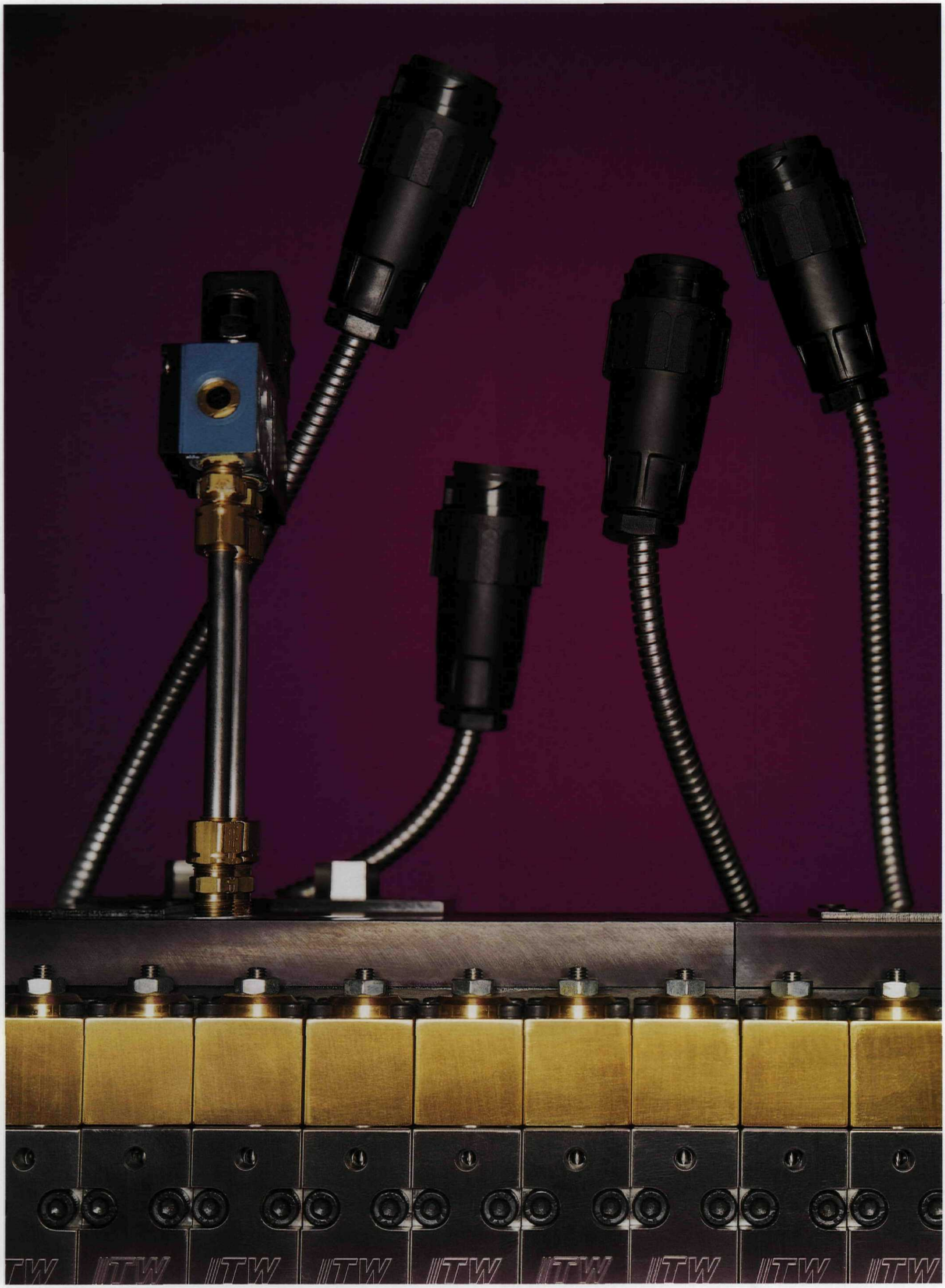
The lightweight TrakFast tool uses compressed fuel to power a linear combustion engine, and its one-hand operation greatly improves productivity versus traditional anchoring and fastening methods. The tool holds up to 40 collated pins and a fuel cell capable of 1,000 shots. This means significantly less time is spent reloading.

TrakFast was introduced in Europe in 1996 under the established *Pulsa* name. Market penetration in commercial drywall applications has shown significant growth in both Europe, where the Pulsa tool has captured a sizeable share of the market in just four years, as well as in the United States, where TrakFast has more than doubled Ramset's market share, making it the clear market leader.

ITW's May 2000 purchase of Siddons Ramset in Australia opens a major market where TrakFast/Pulsa represents entirely new technology. Building on successes achieved in other markets, the renamed Ramset Australia business unit will begin its marketing efforts with extensive training of both its local sales force and distributors. Users will quickly note the tool's speed, durability and ease of use.

Jim Walz, market manager for drywall systems at Ramset/Red Head, will help coordinate the initial marketing efforts for TrakFast/Pulsa training in Australia in conjunction with the SPIT France organization. In-depth sales training sessions, which include side-by-side product demonstrations, and jobsite visits are key to the successful adoption by users of this new technology.

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The success of one 80/20-inspired product very often leads to the development of other customer-focused products or components. Dynatec's *Dynafiber UFD Omega* applicator nozzle, with its flexible design, has significantly increased orders for large, multi-nozzle

product innovation

applicator systems. For years, the industry standard for multi-nozzle applicators was to produce each as a custom item with 14–16 weeks from order to delivery. Dynatec has changed all that.

It started by researching frequently requested applicator sizes and features from major customers during the prior two years. Engineers and manufacturing staff then developed a series of standard manifold heads and components, named the *Equity Modular Head* system.

Multi-nozzle applicators using the Equity Modular Head system are assembled like blocks, using standardized modular parts. They are no longer individually designed, special ordered and custom built. Customer satisfaction is high because the systems are more durable, easier to maintain, and changes can be made quickly and cost effectively.

The end results are mutually beneficial. Customers get the specific applicators they need at a competitive price in four weeks or less from their order date. This combination is a powerful selling tool for Dynatec, which is realizing economies in purchasing materials, as well as significant sales gains without the need to add design and engineering staff.

A custom order for a large, multi-nozzle Dynafiber UFD Omega hot-melt adhesive applicator prompted Dynatec to ask if a system of modular components could be developed. Larry Flatt's prototype and subsequent work by the entire Dynatec engineering team resulted in the development of the Equity Modular Head system.


Chemtronics®
duster
®

The 1999 acquisition of the Prime Source Maintenance, Repair and Operating businesses from Morgan Crucible greatly enhanced ITW's global presence in the specialty fluids and polymers markets. The first step in the integration process was to reorganize lines

segmentation

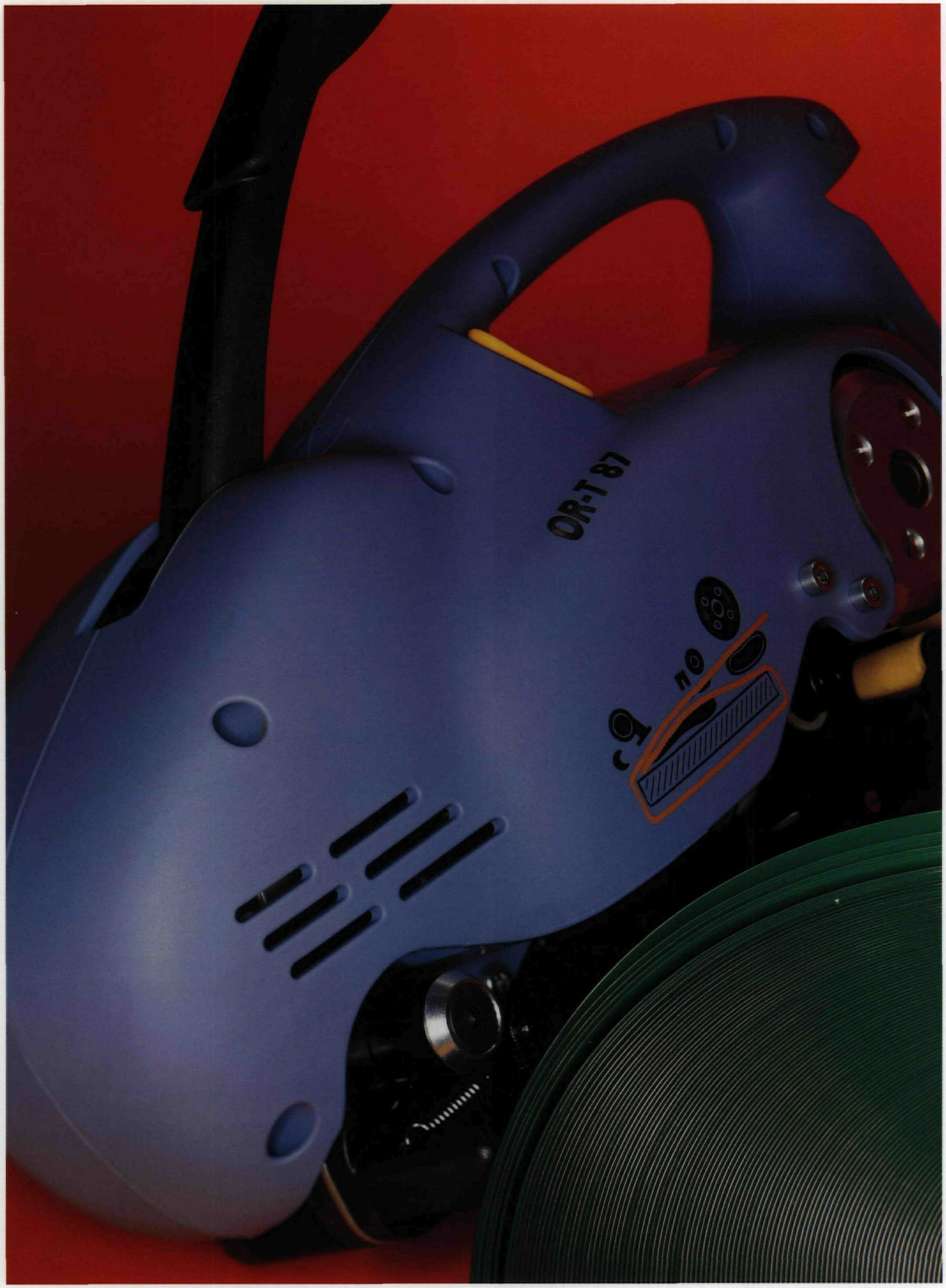
of business that previously were managed based on geography.

Chemtronics (specialty chemical, supplies and desoldering products used in the computer/electronics industries) and LPS (industrial lubricants) were two of the units which became part of our fluids and polymers businesses via acquisitions. The next step was to begin the 80/20 process to focus even further on specific product lines and markets.

Some aspects of the original Prime Source businesses, such as LPS, were already very product and market focused. After in-depth evaluation of products and markets, Chemtronics was further segmented into discrete business units: Chemtronics (core U.S. aerosols and desoldering products) and Coventry (swabs and wipes used in cleanroom settings).

This process helps each business focus on the high-growth market segments and customers, which leads to enhanced operating efficiencies. Now a separate business unit, Coventry is aggressively pursuing the large global market for cleanroom products with the benefit of its own dedicated manufacturing, sales and marketing organizations. In its first year as an independent operation, Coventry increased sales by more than 20 percent.

Stewart Scott joined Chemtronics in 1992 to work on the Coventry line of cleanroom products. After other assignments within Chemtronics, he returned to Coventry, England when it became a separate business unit. He currently is responsible for manufacturing and purchasing for all U.S. and international operations.

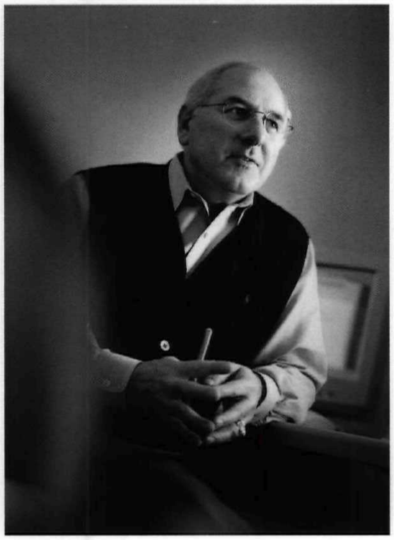

OR-T 87

When Switzerland-based Orgapack was acquired in 1996, ITW knew it had added a solid organization to its steel and plastic strapping systems businesses. The marketing challenge was to find alternate channels of distribution, particularly those already being served

alternate channels

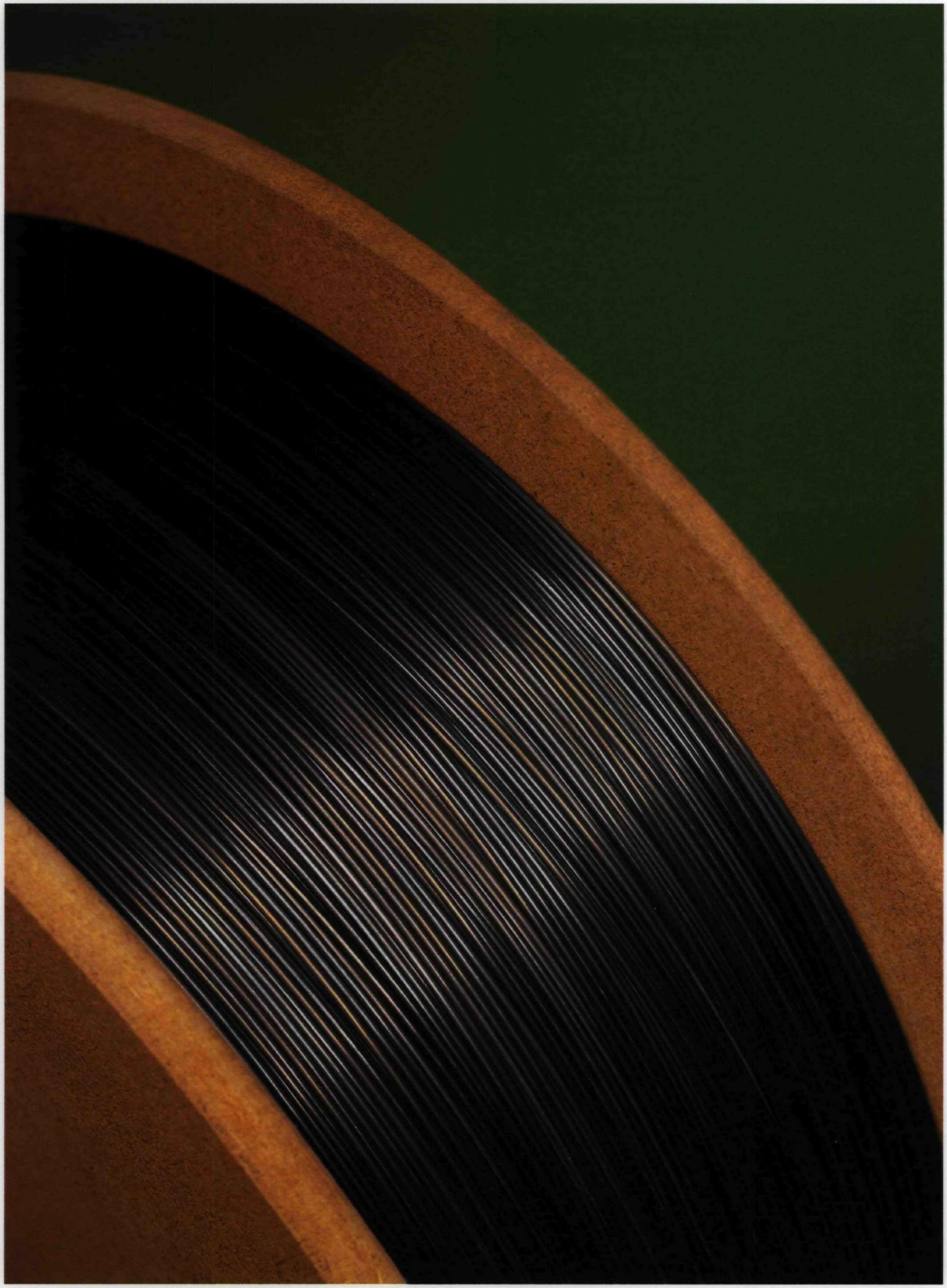
by other ITW strapping businesses. In some instances, this represented new markets for Orgapack; in others, it meant additional channels into markets already served.

Orgapack products are sold, in part, through its marketing partner ITW Packaging Brands North America. George Sim, vice president of Packaging Brands North America, coordinates the sales efforts of Strapex USA, Strapex Canada and ITW Packaging Brands Distributor Sales in support of Orgapack strapping systems.



Ongoing 80/20 analyses of the product lines help focus efforts on a number of "driver products." It also identifies potential sales drivers such as the new *OR-T 87* strapping tool. Typical users for this tool and other Orgapack systems are those with heavier strapping applications, such as concrete block for construction and timber for the lumber industry. These are markets that Orgapack and other ITW strapping products reach through direct and distributor channels.

A goal for all ITW businesses is to continue increasing penetration in markets served while also developing new markets. In Orgapack's case, these newer markets include metal and pre-cast pipe manufacturers, as well as palletized loads for the paper industry. Benefits from these efforts at Orgapack have been dramatic, as new market sales increased more than fivefold from 1996 to 2000. One way it will continue this record will be to examine the existing distribution channels of related ITW businesses to identify opportunities where Orgapack products can enhance the overall offering.



Creating or redesigning products to meet specific needs of key clients is a frequent outcome of the 80/20 process. In many instances, the process involves taking what clients view as a commodity and developing it into an engineered, value-added product. This is

value-added product

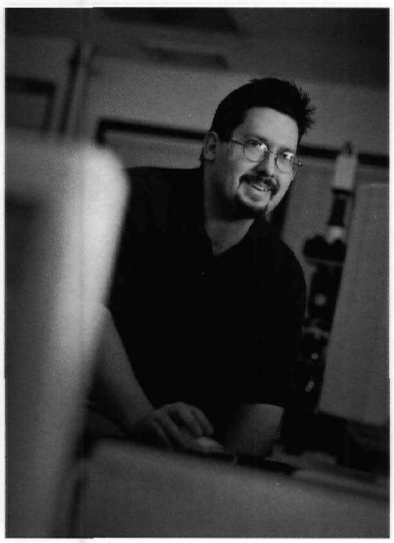
the case with Hobart Brothers' *Metalloy Vantage*, a new product in its *Trimark* brand of metal core, tubular wire for welding.

After observing customers' welding operations and talking with key clients and sales representatives, the Hobart Brothers team selected its target. Solid wire leaves "slag" on the face of the weld that must be ground down to achieve the clean surface needed for plating or painting. This is important in automotive, heavy equipment and railcar manufacturing, three major client industries.

Metalloy Vantage wire utilizes a proprietary metallic powder in its core that changes the characteristics of the molten weld pool. It leaves behind much less silicon than traditional, metal core products, and any pockets are much easier to remove than those left by solid-wire welds. Clients save time preparing products for coatings, and because Metalloy Vantage wire "travels" faster when applied, productivity can increase by as much as 30 percent.

The Metalloy wire can be used by robotic, fixed-automation equipment or in hand-held, semi-automatic applications. Hobart Brothers engineers believe this patent-pending technology can be used in other types of products for different customer applications.

Initial product development and viability research on Metalloy Vantage was conducted by Anthony Nikodym, development engineer at Hobart Brothers. Extensive testing conducted by Nikodym and his fellow engineers also found that this new product bridges welding gaps better than solid wire and is less prone to "burn through."



CIP Fasteners was already a leading supplier of threaded U-nuts to the automotive industry when it was acquired by ITW in 1998. The U-nut—a stamped-metal, U-shaped clip that acts as a self-wrenching nut—has numerous applications in trucks and cars to join or mount parts.

technology transfer

Jill Baron is the business unit manager for CIP Fasteners' new offering — the Collated U-nut and Assembly Tool system. In this role, she is leading the project team in the development and manufacturing of the assembly tool, as well as launching the overall collated U-nut system with CIP's customers.

For more than two years, CIP has worked to reengineer the U-nut and develop a tool that will speed the product-application process. A multidiscipline team of people from CIP, working with engineers from the ITW Tech Center and Paslode, recently completed three key steps in the development of the new design and application process for the U-nut.

First, the U-nuts were redesigned so they could be snapped together in strips for use in an application tool. Next, a machine was built that efficiently collates into strips the millions of U-nuts made every month. Finally, a pneumatic application tool was developed that applies the U-nut at rates four-to-five times faster than the current hand method.

In addition to dramatically increasing assembly productivity, the new Collated U-nut and Assembly Tool will help reduce ergonomic problems associated with repetitive hand application. As CIP Fasteners launches this new system in 2001, it continues the 80/20 tradition of taking a product viewed by some customers as a commodity and converting it into a proprietary, engineered product and system.

Financial Table of Contents

Introduction

Illinois Tool Works Inc. (the "Company" or "ITW") is a multinational manufacturer of highly engineered products and specialty systems. The Company has approximately 600 operations in 43 countries which are aggregated and organized for internal reporting purposes into the following six segments: Engineered Products — North America; Engineered Products — International; Specialty Systems — North America; Specialty Systems — International; Consumer Products; and Leasing and Investments. These segments are described below.

On November 23, 1999, a wholly owned subsidiary of ITW merged with Premark International, Inc. ("Premark"), a commercial manufacturer of food equipment and laminate products. The merger was accounted for under the pooling-of-interests accounting method and accordingly, ITW's historical financial statements for periods prior to the merger have been restated to include the results of operations, financial position and cash flows of Premark, as though the companies had been combined during such periods.

Engineered Products — North America

Businesses in this segment are located in North America and manufacture short lead-time plastic and metal components and fasteners, and specialty products such as polymers, fluid products, and resealable packaging. In 2000, this segment primarily served the construction (47%), automotive (26%), and general industrial (12%) markets.

Dollars in thousands	2000	1999	1998
Operating revenues	**$3,184,033**	**$2,964,782**	**$2,562,324**
Operating income	**610,321**	**561,742**	**477,547**
Margin %	**19.2%**	**18.9%**	**18.6%**

Operating revenues increased 7% in 2000 versus 1999. The base business revenue growth was 4%, with the biggest contributors being the construction (including the Wilsonart laminate operation), automotive and industrial plastics businesses. Acquisitions also contributed 3% to the 2000 revenue increase. Operating income increased 9% and margins improved 30 basis points, mainly due to revenue increases and operating efficiencies in the base businesses, primarily the construction, automotive and industrial plastics operations.

In 1999, revenues increased 16% versus 1998 due to acquisitions and base business revenue growth, which both contributed 8%. The primary contributors to the base business growth were the automotive, construction and consumer packaging businesses. Operating income increased 18% from 1998 due to the base business revenue growth and acquisitions. Overall margins increased as improved operating efficiencies in the base businesses were partially offset by the lower margins of acquired businesses.

Engineered Products — International

Businesses in this segment are located outside North America and manufacture short lead-time plastic and metal components and fasteners, and specialty products such as polymers, fluid products, and electronic component packaging. In 2000, this segment primarily served the automotive (32%), construction (31%), and general industrial (15%) markets.

Dollars in thousands	2000	1999	1998
Operating revenues	**$1,516,202**	**$1,321,658**	**$1,036,342**
Operating income	**153,792**	**132,808**	**127,260**
Margin %	**10.1%**	**10.0%**	**12.3%**

In 2000, operating revenues increased 15% versus the prior year mainly due to acquisitions, which increased revenues by 23%. The base business revenue growth was 4% in 2000, principally related to the industrial plastics, electronic packaging, construction and automotive businesses. Operating income increased 16% in 2000, primarily due to the revenue growth and cost reductions in the base businesses, partially offset by asset writedowns in the fourth quarter of 2000 related to a laminate business in Europe. Margins increased 10 basis points due to cost reductions in 2000, partially offset by the fourth quarter asset writedowns. The changes in foreign currency rates in 2000 versus 1999 reduced revenues by 13% and operating income by 16%.

Operating revenues increased in 1999 versus 1998 due to acquisitions, which contributed 31% to the revenue increase. Base business revenue growth was 1%, as revenue increases in the automotive and polymer businesses were offset by declines in the construction businesses. In 1999, operating income grew 4% mainly due to acquisitions, partially offset by nonrecurring costs associated with various European operations. The margin decline in 1999 was attributable both to base businesses, mainly related to the European nonrecurring costs, and the initial lower margin impact of acquisitions. Foreign currency fluctuations in 1999 versus 1998 decreased both revenues and operating income by 4%.

Specialty Systems — North America

Businesses in this segment are located in North America and produce longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial finishing. In 2000, this segment primarily served the food retail and service (33%), general industrial (20%), construction (9%), and food and beverage (8%) markets.

Dollars in thousands	2000	1999	1998
Operating revenues	**$3,337,387**	**$3,161,435**	**$2,904,662**
Operating income	**559,738**	**537,555**	**468,352**
Margin %	**16.8%**	**17.0%**	**16.1%**

In 2000, operating revenues increased 6% in 2000 versus 1999 primarily due to acquisitions, which contributed 4% to the revenue increase. Base business revenue grew 2% as a result of contributions from the food equipment, industrial packaging and welding businesses. Operating income increased 4% in 2000 due to the higher revenues, partially offset by higher 2000 nonrecurring costs. Margins declined 20 basis points in 2000, as the improved productivity in the food equipment and welding operations was more than offset by the lower margins of acquired companies and higher 2000 nonrecurring costs.

Operating revenues increased 9% in 1999 versus 1998 primarily due to acquisitions, which increased revenues 7%. Base business revenue growth was 3%, mainly related to the food equipment businesses. Operating income grew 15% in 1999, primarily due to improved operating efficiencies in various base businesses. Acquisitions also contributed to the increase in operating income. Overall margins increased in 1999 due to the base business efficiencies, partially offset by lower margins for acquired businesses.

Specialty Systems — International

Businesses in this segment are located outside North America and manufacture longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial finishing. In 2000, this segment primarily served the food retail and service (26%), general industrial (25%), and food and beverage (9%) markets.

Dollars in thousands	2000	1999	1998
Operating revenues	**$1,729,559**	**$1,599,988**	**$1,581,857**
Operating income	**169,705**	**154,022**	**155,110**
Margin %	**9.8%**	**9.6%**	**9.8%**

Operating revenues increased 8% in 2000 primarily due to acquisitions, which increased revenues 17%. Base business revenue growth was 1% in 2000. Operating income increased 10% due to the revenue increase and operating efficiencies in the industrial packaging and food equipment businesses, partially offset by nonrecurring costs in the fourth quarter of 2000 related to the European food equipment businesses. Margins improved 20 basis points due to the productivity improvements in the base businesses, partially offset by higher 2000 nonrecurring costs. Foreign currency fluctuations in 2000 versus 1999 decreased revenues by 9% and operating income by 12%.

In 1999, operating revenues increased 1% versus 1998. The revenue increase related to acquisitions of 8% was partially offset by the effect of a base business revenue decline of 4%. Operating income and margins declined slightly, as increases from acquisitions were more than offset by the effect of lower revenues in the base businesses. Foreign currency fluctuations in 1999 versus 1998 decreased revenues by 2% and operating income by 1%.

Consumer Products

Businesses in this segment are located primarily in North America and manufacture specialty exercise equipment, small electrical appliances, cookware and ceramic tile. In 2000, this segment primarily served the consumer durables (68%) and construction (31%) markets.

Dollars in thousands	2000	1999	1998
Operating revenues	**$ 483,036**	**$ 501,224**	**$ 488,634**
Operating income (loss)	**(14,016)**	**15,326**	**12,925**
Margin %	**(2.9%)**	**3.1%**	**2.6%**

Operating revenues declined 4% in 2000, as increased sales of fitness equipment were more than offset by lower sales in the small appliance and ceramic tile businesses. Operating income and margins were significantly lower in 2000 compared with 1999 due to lower sales and 2000 nonrecurring costs.

Operating revenues increased 3% in 1999 compared with 1998, primarily due to higher sales in the fitness equipment and ceramic tile businesses, offset by decreased revenues in the small appliance businesses. Operating income and margins both increased due to operating efficiencies, primarily in the small appliance businesses.

Leasing and Investments

This segment makes opportunistic investments in mortgage-related assets, leveraged and direct financing leases of equipment, properties and property developments, and affordable housing.

Dollars in thousands	2000	1999	1998
Operating revenues	$ 154,277	$ 157,385	$ 149,748
Operating income	83,897	84,931	67,552

In 2000, both revenues and operating income decreased slightly due to higher gains on the sales of assets in 1999.

Both revenues and operating income increased in 1999 versus 1998 due to gains on the sales of affordable housing and other investments, as well as higher mortgage-related income.

In 1995, 1996 and 1997, the Company acquired pools of mortgage-related assets in exchange for nonrecourse notes payable of $739.7 million, preferred stock of subsidiaries of $60 million and cash of $240 million. The mortgage-related assets acquired in these transactions are located throughout the U.S. and include 11 subperforming, variable rate, balloon loans and 41 foreclosed properties at December 31, 2000. In conjunction with these transactions, the Company simultaneously entered into ten-year swap agreements and other related agreements whereby the Company will pay a third party the portion of the interest and net operating cash flow from the mortgage-related assets in excess of $26 million per year and a portion of the proceeds from the disposition of the mortgage-related assets and principal repayments, in exchange for the third party making payments to the Company equal to the contractual principal and interest payments on the nonrecourse notes payable. In addition, in the event that the pools of mortgage-related assets do not generate income of $26 million a year, the Company has a collateral right against the cash flow generated by three separate pools of mortgage-related assets (owned by third parties in which the Company has minimal interests) which have a total fair value of approximately $2.5 billion at December 31, 2000. The Company entered into the swaps and other related agreements in order to reduce its credit and interest rate risks relative to the mortgage-related assets. The Company expects to recover its net investment in the mortgage-related assets of $362.4 million at December 31, 2000 (net of the related nonrecourse notes payable) through its expected net cash flow of $26 million per year for the remainder of the ten-year periods and its estimated $454.6 million share of the total proceeds from disposition of the mortgage-related assets and principal repayments. The Company believes that because the swaps' counterparty is Aaa-rated and that significant collateral secures the net annual cash flow of $26 million, its risk of not recovering that portion of its net investment has been significantly mitigated. The Company believes that its share of the disposition proceeds will be sufficient to recover the remainder of its net investment. However, there can be no assurances that all of the net investment will be recovered. The net assets attributed to the Leasing and Investments segment at December 31, 2000 and 1999 are summarized as follows:

In thousands	2000	1999
Assets:		
Investments —		
Mortgage-related assets	$1,010,251	$1,017,753
Leases	56,118	62,269
Properties and affordable housing	74,793	76,632
Prepaid forward contract	22,297	21,247
Other	6,933	10,219
Deferred tax assets	237,323	257,687
Other assets	1,269	3,842
	1,408,984	1,449,649
Liabilities:		
Debt —		
Nonrecourse notes payable	647,823	673,143
Allocated general corporate debt	160,976	238,828
Deferred investment income	228,726	270,935
Preferred stock of subsidiaries	60,000	60,000
Other liabilities	29,741	27,901
	1,127,266	1,270,807
Net assets	$ 281,718	$ 178,842

Operating Revenues

Total operating revenues increased 7.0% in 2000 versus 1999 and 11.3% in 1999 versus 1998. Overall, the Company believes that the majority of the increases in operating revenues are due to higher sales volume rather than increased sales prices.

Cost of Revenues

Cost of revenues as a percent of revenues increased to 65.0% in 2000 from 64.7% in 1999. This increase was primarily due to nonrecurring charges related to the Premark businesses and higher raw material costs in certain businesses. Cost of revenues as a percentage of revenues was 64.7% in 1999 compared with 65.4% in 1998. The decline in this ratio from 1998 to 1999 was mainly due to increased sales volume coupled with lower manufacturing costs.

Selling, Administrative and R&D Expenses

Selling, administrative and research and development expense decreased to 18.2% of revenues in 2000 from 18.5% in 1999 because of increasing revenues and administrative expense reductions. Selling, administrative, and research and development expenses were 18.5% of revenues in 1999 versus 18.4% in 1998 primarily due to nonrecurring charges in 1999, mostly offset by administrative expense reductions.

Premark Charges

In 2000, the Company incurred nonrecurring charges related to asset writedowns and compensation costs at certain Premark businesses of approximately $.18 per diluted share. In the fourth quarter of 1999, the Company incurred pretax nonrecurring transaction and compensation costs related to the Premark merger of $.23 per diluted share.

Amortization of Goodwill and Other Intangibles

Amortization of goodwill and other intangibles increased to $121.5 million in 2000 from $74.2 million in 1999. This increase is due to asset writedowns of $30.3 million at certain Premark businesses and increased amortization expense due to 2000 acquisitions and a full year of amortization on 1999 acquisitions. Amortization of goodwill and other intangibles increased to $74.2 million in 1999 from $50.0 million in 1998 primarily due to new acquisitions in 1999 and a full year of amortization expense on 1998 acquisitions.

Interest Expense

Interest expense increased to $72.4 million in 2000 versus $67.5 million in 1999 primarily due to increased commercial paper borrowings in 2000 and a full year of interest expense on the 5.75% notes payable, partially offset by lower interest expense on the 10.5% notes payable and the 5.875% bonds, which were repaid in 2000. Interest expense increased to $67.5 million in 1999 versus $29.2 million in 1998, primarily due to higher long-term debt and increased commercial paper borrowings in 1999. Interest costs of $58.7 million in 2000, $57.9 million in 1999, and $64.4 million in 1998 attributed to the Leasing and Investments segment have been classified in the segment's cost of revenues.

Other Income (Expense)

Other income (expense) was an expense of $12.9 million in 2000 versus income of $14.9 million in 1999. The decline is primarily due to losses on the sale of plant and equipment and on the sale of operations in 2000 versus gains in 1999 and higher minority interest expense on less-than-100%-owned subsidiaries in 2000. Other income increased to $14.9 million in 1999 versus $1.0 million in 1998, primarily due to 1998 losses on the sale of plant and equipment and on the sale of operations.

Income Taxes

The effective tax rate was 35.2% in 2000, 37.8% in 1999, and 36.8% in 1998. See the Income Taxes note for a reconciliation of the U.S. federal statutory rate to the effective tax rate. The Company has not recorded a valuation allowance on the net deferred income tax assets of $662.2 million at December 31, 2000 and $622.5 million at December 31, 1999 as it expects to continue to generate significant taxable income in future years.

Net Income

Net income in 2000 of $958.0 million ($3.15 per diluted share) was 13.9% higher than 1999 net income of $841.1 million ($2.76 per diluted share.) Net income in 1999 of $841.1 million was 3.9% higher than 1998 net income of $809.7 million ($2.66 per diluted share). Net income in 1999 before the Premark merger-related costs of $911.9 million ($2.99 per diluted share) was 12.6% higher than 1998 net income of $809.7 million.

For 2001, the Company is expecting continued slowing in various end markets through the first half of the year. The Company is expecting some recovery in the second half of 2001, with full year net income per diluted share expected to be higher than 2000.

Foreign Currency

The strengthening of the U.S. dollar against foreign currencies in 2000, 1999 and 1998 resulted in decreased operating revenues of $289 million in 2000, $59 million in 1999 and $122 million in 1998 and decreased net income by approximately 7 cents per diluted share in 2000, 1 cent per diluted share in 1999 and 4 cents per diluted share in 1998.

Financial Position

Net working capital at December 31, 2000 and 1999 is summarized as follows:

Dollars in thousands	2000	1999	Increase (Decrease)
Current Assets:			
Cash and equivalents	$ 151,295	$ 232,953	$ (81,658)
Trade receivables	1,654,632	1,630,937	23,695
Inventories	1,181,385	1,084,212	97,173
Other	341,749	324,829	16,920
	3,329,061	3,272,931	56,130
Current Liabilities:			
Short-term debt	425,789	553,655	(127,866)
Accounts payable and accrued expenses	1,281,524	1,376,415	(94,891)
Other	110,297	115,291	(4,994)
	1,817,610	2,045,361	(227,751)
Net Working Capital	$1,511,451	$1,227,570	$ 283,881
Current Ratio	1.83	1.60	

The increase in trade receivables and inventories at December 31, 2000 was due to 2000 acquisitions and higher operating revenues in 2000 versus 1999. The decrease in accounts payable and accrued expenses is primarily due to the payment of Premark merger-related costs which were accrued at year-end 1999 and the effect of foreign currency translation.

Short-term debt decreased at December 31, 2000 as a result of the repayment of notes of $225 million, partially offset by the increase in commercial paper borrowings.

In February 1999, the Company issued $500 million of 5.75% notes due March 1, 2009. The proceeds were used primarily to repay commercial paper borrowings.

Long-term debt at December 31, 2000, consisted of $250 million of commercial paper, $150 million of 6.875% notes, $500 million of 5.75% notes, $648 million of nonrecourse notes, and $56 million of capitalized lease obligations and other debt. Excluding the effect of the Leasing and Investments segment, the percentage of total debt to total capitalization increased to 18.6% at December 31, 2000, from 17.8% at December 31, 1999.

Stockholders' equity was $5.4 billion at December 31, 2000, compared with $4.8 billion at December 31, 1999. Affecting equity were earnings of $958 million, dividends declared of $229 million, and unfavorable currency translation adjustments of $210 million.

The Statement of Cash Flows for the years ended December 31, 2000 and 1999 is summarized below:

In thousands	2000	1999
Net income	$ 957,980	$ 841,112
Depreciation and amortization	413,370	343,284
Income from investments, net of non-cash interest on nonrecourse debt	(106,821)	(107,195)
Acquisitions	(798,837)	(805,664)
Additions to plant and equipment	(313,913)	(335,918)
Cash dividends paid	(223,009)	(183,587)
Net proceeds of debt	38,272	245,835
Purchase of investments	(14,651)	(38,863)
Proceeds from investments	84,102	81,064
Sales (purchases) of short-term investments	(7,409)	132,986
Other, net	(110,742)	(49,627)
Net increase (decrease) in cash and equivalents	$ (81,658)	$ 123,427

Net cash provided by operating activities of $1,122 million in 2000 and $1,037 million in 1999 was primarily used for acquisitions, additions to plant and equipment, and cash dividends.

Dividends paid per share increased 21% to $.74 per share in 2000 from $.61 per share in 1999. The Company expects to continue to meet its dividend payout objective of 25-30% of the average of the last three years' net income.

Management continues to believe that internally generated funds will be adequate to service existing debt and maintain appropriate debt-to-total capitalization and earnings-to-fixed-charge ratios. Internally generated funds are also expected to be adequate to finance internal growth, small-to-medium sized acquisitions and additional investments. The Company has additional debt capacity to fund larger acquisitions. The Company had no material commitments for capital expenditures at December 31, 2000 or 1999.

Market Risk

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's long-term debt and certain mortgage-related investments. The Company has no cash flow exposure on its long-term obligations related to changes in market interest rates. The Company primarily enters into long-term debt obligations for general corporate purposes, including the funding of capital expenditures and acquisitions. The Company has not entered into any derivative financial instruments to hedge interest rate risk on these general corporate borrowings.

The Company has also issued nonrecourse notes in connection with the three commercial mortgage transactions. The holders of these notes have recourse only against certain mortgage-related assets.

The mortgage-related assets acquired in the commercial mortgage transactions include 11 and 16 subperforming, variable rate, balloon loans at December 31, 2000 and 1999, respectively. The fair value of these commercial mortgage loans fluctuates as market interest rates change. The Company has entered into swap and other related agreements to reduce its credit and interest rate risks relative to the commercial mortgage loans and other mortgage-related assets. See the Leasing & Investments section for additional details regarding the net swap receivables.

The following table presents the Company's financial instruments for which fair value is subject to changing market interest rates:

In Thousands	General Corporate Debt			Mortgage-Related Investments and Related Nonrecourse Debt				
	5.75% notes due March 1, 2009	6.875% notes due November 15, 2008	5.875% notes due March 1, 2000	Commercial mortgage loans	Net swap receivables	6.59% nonrecourse note	7.00% nonrecourse note	6.44% nonrecourse note
As of December 31, 2000:								
Estimated cash inflow (outflow) by year of principal maturity —								
2001	$ —	$ —	$ —	$ 134,300	$ 82,584	$ (16,000)	$ (31,286)	$ —
2002	—	—	—	381	24,464	(16,000)	(13,979)	(1,087)
2003	—	—	—	371	27,532	(16,000)	(23,431)	(2,174)
2004	—	—	—	453	20,838	(16,000)	(23,431)	(2,174)
2005	—	—	—	83,176	46,974	(121,500)	(23,431)	(39,139)
2006 and thereafter	(500,000)	(150,000)	—	89,948	118,110	—	(129,326)	(172,866)
Total	(500,000)	(150,000)	—	308,629	320,502	(185,500)	(244,884)	(217,440)
Estimated fair value	(479,219)	(147,188)	—	289,218	316,620	(192,747)	(252,873)	(223,823)
Carrying value	(500,000)	(150,000)	—	199,578	316,620	(185,500)	(244,884)	(217,440)
As of December 31, 1999:								
Total estimated cash inflow (outflow)	$(500,000)	$(150,000)	$(125,000)	$ 410,407	$ 466,691	$(201,500)	$(254,203)	$(217,440)
Estimated fair value	(447,891)	(135,961)	(124,980)	375,057	364,258	(209,522)	(263,386)	(223,826)
Carrying value	(500,000)	(150,000)	(125,000)	262,443	364,258	(201,500)	(254,203)	(217,440)

Foreign Currency Risk

The Company operates in the United States and 42 other countries. In general, the Company manufactures products that are sold in its significant foreign markets in the particular local country. As the initial funding for these foreign manufacturing operations is provided primarily through the permanent investment of capital from the U.S. parent company, the Company and its subsidiaries do not have significant assets or liabilities denominated in currencies other than their functional currencies. As such, the Company does not have any significant derivatives or other financial instruments which are subject to foreign currency risk at December 31, 2000 or 1999.

Forward-Looking Statements

This annual report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, without limitation, statements regarding the Company's 2001 forecasts, the adequacy of internally generated funds and the recoverability of the Company's investment in mortgage-related assets. These statements are subject to certain risks, uncertainties, and other factors, which could cause actual results to differ materially from those anticipated, including, without limitation, the risks described herein. Important factors that may influence future results include (1) a downturn in key end markets such as construction, food retail and service, automotive, general industrial or real estate, (2) deterioration in global and domestic business and economic conditions, such as interest rate and currency fluctuations, particularly in North America, Europe and Australia, (3) an interruption in, or reduction in, introducing new products into the Company's product line, and (4) an unfavorable environment for making acquisitions, domestic and international, including adverse accounting or regulatory requirements and market values of candidates.

Statement of Income

Illinois Tool Works Inc. and Subsidiaries

In thousands except for per share amounts	2000	1999	1998
	For the Years Ended December 31		
Operating Revenues	$9,983,577	$9,333,185	$8,386,971
Cost of revenues	6,485,229	6,042,548	5,485,533
Selling, administrative, and research and development expenses	1,813,455	1,730,031	1,542,684
Amortization of goodwill and other intangible assets	121,456	74,222	50,008
Premark merger-related costs	—	81,020	—
Operating Income	1,563,437	1,405,364	1,308,746
Interest expense	(72,377)	(67,510)	(29,216)
Other income (expense)	(12,880)	14,858	1,017
Income Before Income Taxes	1,478,180	1,352,712	1,280,547
Income taxes	520,200	511,600	470,800
Net Income	$ 957,980	$ 841,112	$ 809,747
Net Income Per Share:			
Basic	$3.18	$2.80	$2.70
Diluted	$3.15	$2.76	$2.66

Statement of Income Reinvested in the Business

Illinois Tool Works Inc. and Subsidiaries

In thousands	2000	1999	1998
	For the Years Ended December 31		
Balance, Beginning of Year	$4,485,515	$3,864,024	$3,242,996
Net income	957,980	841,112	809,747
Cash dividends declared	(229,397)	(193,981)	(159,125)
Adjustment to conform year-ends of Premark's international subsidiaries	—	2,323	—
Treasury stock issued for incentive plans	—	(27,963)	(29,594)
Balance, End of Year	$5,214,098	$4,485,515	$3,864,024

Statement of Comprehensive Income

Illinois Tool Works Inc. and Subsidiaries

In thousands	2000	1999	1998
	For the Years Ended December 31		
Net Income	$ 957,980	$ 841,112	$ 809,747
Other comprehensive income:			
Foreign currency translation adjustments	(203,561)	(77,696)	(14,413)
Income tax related to foreign currency translation adjustments	(6,624)	1,803	(2,389)
Comprehensive income	$ 747,795	$ 765,219	$ 792,945

The Notes to Financial Statements are an integral part of these statements.

Statement of Financial Position

Illinois Tool Works Inc. and Subsidiaries

In thousands except shares	December 31 2000	1999
Assets		
Current Assets:		
Cash and equivalents	$ 151,295	$ 232,953
Trade receivables	1,654,632	1,630,937
Inventories	1,181,385	1,084,212
Deferred income taxes	183,823	188,729
Prepaid expenses and other current assets	157,926	136,100
Total current assets	3,329,061	3,272,931
Plant and Equipment:		
Land	116,423	114,048
Buildings and improvements	1,000,807	926,306
Machinery and equipment	2,860,472	2,633,212
Equipment leased to others	118,589	118,164
Construction in progress	103,319	120,568
	4,199,610	3,912,298
Accumulated depreciation	(2,477,086)	(2,278,367)
Net plant and equipment	1,722,524	1,633,931
Investments	1,170,392	1,188,120
Goodwill & Other Intangibles	2,483,882	2,029,959
Deferred Income Taxes	478,420	433,792
Other Assets	419,177	501,526
	$ 9,603,456	$ 9,060,259
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt	$ 425,789	$ 553,655
Accounts payable	455,417	470,200
Accrued expenses	826,107	906,215
Cash dividends payable	60,490	54,102
Income taxes payable	49,807	61,189
Total current liabilities	1,817,610	2,045,361
Noncurrent Liabilities:		
Long-term debt	1,549,038	1,360,746
Other	835,821	838,729
Total noncurrent liabilities	2,384,859	2,199,475
Stockholders' Equity:		
Common stock:		
Issued—302,709,094 shares in 2000 and 300,829,216 shares in 1999	3,027	3,008
Additional paid-in-capital	584,357	517,210
Income reinvested in the business	5,214,098	4,485,515
Common stock held in treasury	(1,783)	(1,783)
Cumulative translation adjustment	(398,712)	(188,527)
Total stockholders' equity	5,400,987	4,815,423
	$ 9,603,456	$ 9,060,259

The Notes to Financial Statements are an integral part of this statement.

Statement of Cash Flows

Illinois Tool Works Inc. and Subsidiaries

In thousands	2000	1999	1998
	For the Years Ended December 31		
Cash Provided by (Used for) Operating Activities:			
Net income	$ 957,980	$ 841,112	$ 809,747
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	413,370	343,284	296,567
Change in deferred income taxes	(21,106)	105,343	58,553
Provision for uncollectible accounts	12,952	17,704	9,017
(Gain) loss on sale of plant and equipment	8,862	(297)	4,514
Income from investments	(151,692)	(153,593)	(144,310)
Non-cash interest on nonrecourse debt	44,871	46,398	48,378
(Gain) loss on sale of operations and affiliates	6,013	(828)	3,786
Other non-cash items, net	(7,897)	(9,936)	(50)
Cash provided by operating activities	1,263,353	1,189,187	1,086,202
Change in assets and liabilities:			
(Increase) decrease in—			
Trade receivables	54,390	(105,084)	(24,410)
Inventories	3,945	7,427	(3,480)
Prepaid expenses and other assets	(50,670)	(32,115)	(34,348)
Increase (decrease) in—			
Accounts payable	(73,955)	4,381	(70,657)
Accrued expenses and other liabilities	(85,825)	(2,263)	(30,376)
Income taxes payable	11,333	(24,074)	(34,427)
Other, net	(161)	(863)	(724)
Net cash provided by operating activities	1,122,410	1,036,596	887,780
Cash Provided by (Used for) Investing Activities:			
Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates	(798,837)	(805,664)	(921,629)
Additions to plant and equipment	(313,913)	(335,918)	(316,118)
Purchase of investments	(14,651)	(38,863)	(13,232)
Proceeds from investments	84,102	81,064	50,455
Proceeds from sale of plant and equipment	29,717	26,349	26,581
Proceeds from sale of operations and affiliates	7,757	8,679	17,006
Sales (purchases) of short-term investments	(7,409)	132,986	(2,118)
Other, net	1,870	2,997	73
Net cash used for investing activities	(1,011,364)	(928,370)	(1,158,982)
Cash Provided by (Used for) Financing Activities:			
Cash dividends paid	(223,009)	(183,587)	(150,934)
Issuance of common stock	25,409	21,887	18,742
Net proceeds (repayments) of short-term debt	302,076	(214,465)	318,497
Proceeds from long-term debt	1,125	499,681	167,755
Repayments of long-term debt	(264,929)	(39,381)	(142,459)
Repurchase of treasury stock	—	(44,995)	(45,267)
Other, net	(493)	(15,567)	1,565
Net cash provided by (used for) financing activities	(159,821)	23,573	167,899
Effect of Exchange Rate Changes on Cash and Equivalents	(32,883)	(8,372)	331
Cash and Equivalents:			
Increase (decrease) during the year	(81,658)	123,427	(102,972)
Beginning of year	232,953	109,526	212,498
End of year	$ 151,295	$ 232,953	$ 109,526
Cash Paid During the Year for Interest	$ 92,062	$ 69,977	$ 44,487
Cash Paid During the Year for Income Taxes	$ 507,783	$ 414,200	$ 421,510
Liabilities Assumed from Acquisitions	$ 282,891	$ 278,711	$ 255,019

See the Investments note for information regarding noncash transactions.
The Notes to Financial Statements are an integral part of this statement.

Report of Independent Public Accountants

To the Board of Directors of Illinois Tool Works Inc.:

We have audited the accompanying statements of financial position of Illinois Tool Works Inc. (a Delaware corporation) and Subsidiaries (ITW) as of December 31, 2000 and 1999, and the related statements of income, income reinvested in the business, cash flows and comprehensive income for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Premark International, Inc. as of and for the years ended December 31, 1999 and 1998. Such statements are included in the consolidated financial statements of Illinois Tool Works Inc. and Subsidiaries and reflect total assets of 23% as of December 31, 1999, and total revenues of 31% and 33% for the years ended December 31, 1999, and 1998, respectively, of the related consolidated totals. The financial statements of Premark International, Inc. were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts included for Premark International, Inc., for 1999 and 1998 is based solely upon the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Illinois Tool Works Inc. and Subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Chicago, Illinois
January 29, 2001

Notes to Financial Statements

The Notes to Financial Statements furnish additional information on items in the financial statements. The notes have been arranged in the same order as the related items appear in the statements.

Illinois Tool Works Inc. (the "Company" or "ITW") is a multinational manufacturer of highly engineered products and specialty systems. The Company primarily serves the construction, automotive, food retail and service, and general industrial markets.

Significant accounting principles and policies of the Company are highlighted in italics. Certain reclassifications of prior years' data have been made to conform to current year reporting.

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes to financial statements. Actual results could differ from those estimates.

Consolidation and Translation — The financial statements *include the Company and its majority-owned subsidiaries. All significant intercompany transactions are eliminated from the financial statements.* Substantially all of the Company's foreign subsidiaries have November 30 fiscal year-ends to facilitate inclusion of their financial statements in the December 31 financial statements.

Foreign subsidiaries' assets and liabilities are translated to U.S. dollars at end-of-period exchange rates. Revenues and expenses are translated at average rates for the period. Translation adjustments are not included in income but are reported as a separate component of stockholders' equity.

Premark Merger — On November 23, 1999, a wholly owned subsidiary of ITW merged with Premark International, Inc. ("Premark"), a commercial manufacturer of food equipment and laminate products. Shareholders of Premark received .8081 shares of ITW common stock in exchange for each share of Premark common stock outstanding. A total of 49,781,665 of ITW common shares were issued to the former Premark shareholders in connection with the merger.

The merger was accounted for under the pooling-of-interests accounting method and accordingly, ITW's historical financial statements for periods prior to the merger have been restated to include the results of operations, financial position and cash flows of Premark, as though the companies had been combined during such periods.

In the fourth quarter of 1999, the Company incurred pretax nonrecurring transaction and compensation costs related to the Premark merger of $81,020,000 ($70,792,000 after-tax or $.23 per diluted share).

Acquisitions — During 2000, 1999 and 1998, the Company acquired 45, 31 and 46 operations, respectively, none of which materially affected consolidated results.

Operating Revenues *are recognized primarily at the time of product shipment.* No single customer accounted for more than 10% of consolidated revenues in 2000, 1999 or 1998. Export sales from U.S. operations to third parties were less than 10% of total operating revenues during those years.

Research and Development Expenses *are recorded as expense in the year incurred.*

These costs were $114,484,000 in 2000, $114,605,000 in 1999 and $101,578,000 in 1998.

Rental Expense was $93,001,000 in 2000, $91,797,000 in 1999 and $83,290,000 in 1998.

Future minimum lease payments for the years ended December 31 are as follows:

In thousands	
2001	$ 79,046
2002	62,499
2003	42,299
2004	28,052
2005	20,169
2006 and future years	36,479
	$268,544

Other Income (Expense) consisted of the following:

In thousands	2000	1999	1998
Interest income	$ 15,849	$ 17,560	$ 15,918
Gain (loss) on sale of operations and affiliates	(6,013)	828	(3,786)
Gain (loss) on sale of plant and equipment	(8,862)	297	(4,514)
Loss on foreign currency translation	(8,171)	(5,460)	(2,211)
Other, net	(5,683)	1,633	(4,390)
	$(12,880)	$ 14,858	$ 1,017

Income Taxes — The Company *utilizes the liability method of accounting for income taxes. Deferred income taxes are determined based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities given the provisions of the enacted tax laws.* The components of the provision for income taxes were as shown below:

In thousands	2000	1999	1998
U.S. federal income taxes:			
Current	$352,209	$318,307	$275,949
Deferred	30,446	47,684	11,040
	382,655	365,991	286,989
Foreign income taxes:			
Current	122,789	77,283	98,446
Deferred	(20,460)	11,557	30,863
	102,329	88,840	129,309
State income taxes:			
Current	26,468	49,163	48,141
Deferred	8,748	7,606	6,361
	35,216	56,769	54,502
	$520,200	$511,600	$470,800

Income before income taxes for domestic and foreign operations was as follows:

In thousands	2000	1999	1998
Domestic	$1,224,415	$ 992,633	$ 981,173
Foreign	253,765	360,079	299,374
	$1,478,180	$1,352,712	$1,280,547

The reconciliation between the U.S. federal statutory tax rate and the effective tax rate was as follows:

	2000	1999	1998
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of U.S. federal tax benefit	2.0	2.7	2.7
Nondeductible goodwill amortization	1.3	1.1	.7
Differences between U.S. federal statutory and foreign tax rates	.4	—	.6
Other, net	(3.5)	(1.0)	(2.2)
Effective tax rate	35.2%	37.8%	36.8%

Deferred U.S. federal income taxes and foreign withholding taxes have not been provided on approximately $359,000,000 and $483,000,000 of undistributed earnings of international affiliates as of December 31, 2000 and 1999, respectively. In the event these earnings were distributed to the Company, U.S. federal income taxes payable would be reduced by foreign tax credits based on income tax laws and circumstances at the time of distribution. If these undistributed earnings were not considered permanently reinvested, additional deferred taxes of approximately $89,000,000 and $84,000,000 would have been provided at December 31, 2000 and 1999, respectively.

The components of deferred income tax assets and liabilities at December 31, 2000 and 1999 were as follows:

	2000		1999	
In thousands	Asset	Liability	Asset	Liability
Acquisition asset basis differences	$ 40,766	$ (22,833)	$ 43,390	$ (18,545)
Inventory reserves, capitalized tax cost and LIFO inventory	48,026	(18,869)	28,644	(10,909)
Investments	261,576	(24,253)	287,965	(30,278)
Plant and equipment	14,299	(61,240)	11,973	(58,866)
Accrued expenses and reserves	110,712	—	129,440	—
Employee benefit accruals	186,085	—	199,216	—
Foreign tax credit carryforwards	75,466	—	34,503	—
Net operating loss carryforwards	55,102	—	51,464	—
Allowances for uncollectible accounts	13,833	—	6,751	—
Prepaid pension assets	—	(36,960)	—	(34,189)
Other	61,713	(18,342)	39,816	(24,227)
Gross deferred income tax assets (liabilities)	867,578	(182,497)	833,162	(177,014)
Valuation allowances	(22,838)	—	(33,627)	—
Total deferred income tax assets (liabilities)	$ 844,740	$(182,497)	$ 799,535	$(177,014)
Net deferred income tax assets	$ 662,243		$ 622,521	

No valuation allowance has been recorded on the net deferred income tax assets at December 31, 2000 and 1999 as the Company expects to continue to generate significant taxable income in future years.

At December 31, 2000, the Company had foreign tax credit carryforwards of approximately $75,466,000, which expire as follows:

In thousands	
2001	$ 2,693
2002	26,926
2003	5,140
2004	8,393
2005	32,314
	$75,466

At December 31, 2000, the Company had net operating loss carryforwards of approximately $156,642,000 available to offset future taxable income in the U.S. and certain foreign jurisdictions, which expire as follows:

In thousands	
2001	$ 2,539
2002	1,374
2003	998
2004	8,102
2005	14,257
2006	266
2007	1,360
2008	1,650
2009	396
2010	682
2011	847
2012	2,360
2013	2,123
2014	334
2015	—
2016	—
2017	2,653
2018	3,984
Do not expire	112,717
	$156,642

Net Income Per Share *is computed by dividing net income by the weighted average number of shares outstanding for the period. Net income per diluted share is computed by dividing net income by the weighted average number of shares assuming dilution.* Dilutive shares reflect the potential additional shares that would be outstanding if the dilutive stock options outstanding were exercised during the period. The computation of net income per share was as follows:

In thousands except per share data	2000	1999	1998
Net income	$957,980	$841,112	$809,747
Net income per share — Basic:			
Weighted average common shares	301,573	300,158	299,912
Net income per share — Basic	$3.18	$2.80	$2.70
Net income per share — Diluted:			
Weighted average common shares	301,573	300,158	299,912
Effect of dilutive stock options	2,841	4,491	4,729
Weighted average common shares assuming dilution	304,414	304,649	304,641
Net income per share — Diluted	$3.15	$2.76	$2.66

Options to purchase 1,359,262 shares of common stock at an average price of $65.49 per share were outstanding at December 31, 2000, but were not included in the computation of diluted net income per share for the period because the options' exercise prices were greater than the average market price of the common shares. The majority of these options will expire in 2009. There were no significant options outstanding at December 31, 1999 and 1998 that had an exercise price greater than the average market price.

Cash and Equivalents included interest-bearing deposits of $75,555,000 at December 31, 2000 and $83,392,000 at December 31, 1999.

Interest-bearing deposits have maturities of 90 days or less and are stated at cost, which approximates market.

Trade Receivables as of December 31, 2000 and 1999 were net of allowances for uncollectible accounts of $57,700,000 and $54,900,000, respectively.

Inventories at December 31, 2000 and 1999 were as follows:

In thousands	2000	1999
Raw material	$ 350,943	$ 352,992
Work-in-process	134,044	123,137
Finished goods	696,398	608,083
	$1,181,385	$1,084,212

Inventories *are stated at the lower of cost or market and include material, labor and factory overhead. The last-in, first-out (LIFO) method is used to determine the cost of the inventories of a majority of the U.S. operations.* Inventories priced at LIFO were 42% and 45% of total inventories as of December 31, 2000 and 1999, respectively. *The first-in, first-out (FIFO) method is used for all other inventories.* Under the FIFO method, which approximates current cost, total inventories would have been approximately $93,200,000 and $79,600,000 higher than reported at December 31, 2000 and 1999, respectively.

Plant and Equipment *are stated at cost less accumulated depreciation. Renewals and improvements that increase the useful life of plant and equipment are capitalized. Maintenance and repairs are charged to expense as incurred.*

Depreciation was $291,914,000 in 2000 compared with $269,062,000 in 1999 and $246,559,000 in 1998 and was reflected primarily in cost of revenues. *Depreciation of plant and equipment for financial reporting purposes is computed principally on an accelerated basis.*

The range of useful lives used to depreciate plant and equipment is as follows:

Buildings and improvements	**10–50 years**
Machinery and equipment	**3–20 years**
Equipment leased to others	**Term of lease**

Investments as of December 31, 2000 and 1999 consisted of the following:

In thousands	2000	1999
Commercial mortgage loans	$ 199,578	$ 262,443
Commercial real estate	431,763	274,407
Net swap receivables	316,620	364,258
Receivable from mortgage servicer	49,987	105,360
Prepaid forward contract	22,297	21,247
Leveraged, direct financing and sales-type leases of equipment	56,118	62,269
Properties held for sale	26,150	24,200
Property developments	45,014	50,542
Affordable housing	3,629	1,890
Annuity contract	6,550	5,993
U.S. Treasury security	5,753	5,292
Other	6,933	10,219
	$1,170,392	$1,188,120

In 1995, 1996 and 1997, the Company acquired pools of mortgage-related assets in exchange for nonrecourse notes payable of $739,705,000, preferred stock of subsidiaries of $60,000,000 and cash of $240,000,000. The mortgage-related assets acquired in these transactions are located throughout the U.S. and include 11 and 16 subperforming, variable rate, balloon loans and 41 and 24 foreclosed properties at December 31, 2000 and 1999, respectively. In conjunction with these transactions, the Company simultaneously entered into ten-year swap agreements and other related agreements whereby the Company will pay a third party the portion of the interest and net operating cash flow from the mortgage-related assets in excess of $26,000,000 per year and a portion of the proceeds from the disposition of the mortgage-related assets and principal repayments, in exchange for the third party making payments to the Company equal to the contractual principal and interest payments on the nonrecourse notes payable. In addition, in the event that the pools of mortgage-related assets do not generate income of $26,000,000 a year, the Company has a collateral right against the cash flow generated by three separate pools of mortgage-related assets (owned by third parties in which the Company has minimal interests) which have a total fair value of approximately $2,500,000,000 at December 31, 2000. The Company entered into the swaps and other related agreements in order to reduce its credit and interest rate risks relative to the mortgage-related assets.

The Company *evaluates whether the commercial mortgage loans have been impaired by reviewing the discounted estimated future cash flows of the loans versus the carrying value of the loans. If the carrying value exceeds the discounted cash flows, an impairment loss is recorded through income.* At December 31, 2000 and 1999, the impairment loss allowance was $4,576,000 and $10,100,000, respectively. The estimated fair value of the commercial mortgage loans, based on discounted future cash flows, exceeds the carrying value at December 31, 2000 and 1999 by $89,640,000 and $112,614,000, respectively. The net swap receivables *are recorded at fair value, based on the estimated future cash flows discounted at current market interest rates. Any adjustments to the carrying value of the net swap receivables due to changes in expected future cash flows or interest rates are recorded through income.*

The Company is required to adopt Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133") in 2001. SFAS 133 requires that an entity recognize certain derivatives in the Statement of Financial Position and measure those instruments at fair value. The adoption of SFAS 133 is not expected to have a material effect on the Company's financial position or results of operations.

The Company's investment in leveraged and direct financing leases relates to equipment used in the transportation industry. The components of the investment in leveraged, direct financing and sales-type leases at December 31, 2000 and 1999 were as shown below:

In thousands	2000	1999
Lease contracts receivable (net of principal and interest on nonrecourse financing)	$ 55,840	$ 63,603
Estimated residual value of leased assets	19,073	21,313
Unearned and deferred income	(18,795)	(22,647)
Investment in leveraged, direct financing and sales-type leases	56,118	62,269
Deferred income taxes related to leveraged and direct financing leases	(23,781)	(28,038)
Net investment in leveraged, direct financing and sales-type leases	$ 32,337	$ 34,231

Goodwill and Other Intangibles — Goodwill represents the excess cost over fair value of the net assets of purchased businesses. Goodwill *is being amortized on a straight-line basis over 15 to 40 years.* Goodwill amortization expense was $89,040,000 in 2000, $57,470,000 in 1999 and $37,763,000 in 1998. Accumulated goodwill amortization was $304,982,000 and $261,188,000 at December 31, 2000 and 1999, respectively.

Other intangible assets represent patents, noncompete agreements and other assets acquired with purchased businesses and *are being amortized primarily on a straight-line basis over five to 17 years.* Amortization expense was $32,416,000 in 2000, $16,752,000 in 1999 and $12,245,000 in 1998. Accumulated amortization was $96,275,000 and $93,473,000 at December 31, 2000 and 1999.

The Company assesses the recoverability of unamortized goodwill, other intangible assets, and other long-lived assets whenever events or changes in circumstances indicate that such assets may be impaired by reviewing the sufficiency of future undiscounted cash flows of the related entity to cover the amortization or depreciation over the remaining useful life of the asset. For any long-lived assets which are determined to be impaired, a loss is recognized for the difference between the carrying value and the fair value for assets to be held or the net realizable value for assets to be disposed of. Included in amortization expense for 2000 are impairment charges of $30,300,000, primarily related to a laminate business in Europe which was acquired by Premark in 1998. Estimated future cash flows related to this operation indicated that the carrying value of its goodwill and intangible assets would not be realized. No impairment charges were recorded in 1999 or 1998.

Other Assets as of December 31, 2000 and 1999 consisted of the following:

In thousands	2000	1999
Cash surrender value of life insurance policies	$157,713	$132,042
Prepaid pension assets	124,820	95,116
Investment in unconsolidated affiliates	39,889	167,206
Other	96,755	107,162
	$419,177	$501,526

Retirement Plans and Postretirement Benefits — Summarized information regarding the Company's defined benefit pension and postretirement health care and life insurance benefits was as follows:

	Pension			Postretirement Benefits		
In thousands	2000	1999	1998	2000	1999	1998
Components of net periodic benefit cost:						
Service cost	$ 43,981	$ 50,105	$ 40,861	$ 10,628	$ 5,954	$ 5,034
Interest cost	73,060	72,125	66,812	25,254	17,446	16,707
Expected return on plan assets	(123,505)	(102,568)	(83,090)	—	—	—
Amortization of prior service (benefit) cost	(1,896)	6,174	6,037	4,563	(574)	(493)
Amortization of actuarial (gain) loss	(2,555)	1,147	(4,597)	(199)	(21)	(1,835)
Amortization of transition amount	(6,692)	(6,813)	(6,831)	—	—	—
Net periodic benefit cost (income)	$ (17,607)	$ 20,170	$ 19,192	$ 40,246	$ 22,805	$ 19,413

In thousands	Pension 2000	Pension 1999	Postretirement Benefits 2000	Postretirement Benefits 1999
Change in benefit obligation as of September 30:				
Benefit obligation at beginning of period	$1,071,707	$1,122,055	$ 348,468	$ 255,890
Service cost	43,981	50,105	10,628	5,954
Interest cost	73,060	72,125	25,254	17,446
Plan participant contributions	2,284	2,081	4,044	4,621
Amendments	(25,178)	(45,861)	31,683	63,076
Actuarial (gain) loss	16,473	(95,824)	(6,372)	18,469
Acquisitions and divestitures	8,101	42,341	—	9,284
Benefits paid	(72,993)	(68,571)	(29,670)	(26,272)
Liabilities from other plans	5,767	2,178	—	—
Foreign currency translation	(29,177)	(8,922)	—	—
Benefit obligation at end of period	$1,094,025	$1,071,707	$ 384,035	$ 348,468
Change in plan assets as of September 30:				
Fair value of plan assets at beginning of period	$1,292,115	$1,078,130	$ —	$ —
Actual return on plan assets	272,920	208,677	—	—
Acquisitions and divestitures	6,266	48,447	—	—
Company contributions	25,749	24,417	25,626	21,651
Plan participant contributions	2,284	2,081	4,044	4,621
Benefits paid	(72,993)	(68,571)	(29,670)	(26,272)
Assets from other plans	6,757	3,541	—	—
Foreign currency translation	(24,270)	(4,607)	—	—
Fair value of plan assets at end of period	$1,508,828	$1,292,115	$ —	$ —
Net prepaid (accrued) benefit cost as of September 30:				
Funded status	$ 414,803	$ 220,408	$ (384,035)	$ (348,468)
Unrecognized net actuarial (gain)	(307,451)	(179,338)	(11,095)	(4,922)
Unrecognized prior service (benefit) cost	(49,167)	(25,721)	85,178	58,058
Unrecognized net transition amount	(3,376)	(9,922)	—	—
Net prepaid (accrued) benefit cost	$ 54,809	$ 5,427	$ (309,952)	$ (295,332)
Plans with accumulated benefit obligation in excess of plan assets as of September 30:				
Projected benefit obligation	$ 81,849	$ 87,359		
Accumulated benefit obligation	$ 76,980	$ 83,679		
Fair value of plan assets	$ 2,196	$ 5,044		

	Pension 2000	Pension 1999	Pension 1998	Postretirement Benefits 2000	Postretirement Benefits 1999	Postretirement Benefits 1998
Weighted average assumptions:						
Discount rate	7.19%	7.19%	6.60%	7.50%	7.50%	6.75%
Expected return on plan assets	10.55%	9.68%	9.92%	—	—	—
Rate of compensation increases	4.05%	4.24%	4.33%	—	—	—
Current health care cost trend rate	—	—	—	5.00%	5.43%	5.82%
Ultimate health care cost trend rate	—	—	—	5.00%	5.00%	5.22%

In both 2000 and 1999, the Company amended the primary pension plan to change the benefit formula.

In 1999, the Company amended the primary postretirement health care plan to provide benefits to substantially all domestic employees.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	**4.79%**	**(2.65%)**
Effect on postretirement benefit obligation	**2.61%**	**(2.13%)**

In addition to the above pension benefits, the Company sponsors defined contribution retirement plans covering the majority of domestic employees. The Company's contributions to these plans were $28,050,000 in 2000, $29,900,000 in 1999 and $29,200,000 in 1998.

Short-Term Debt as of December 31, 2000 and 1999 consisted of the following:

In thousands	2000	1999
Bank overdrafts	**$ 79,679**	**$ 60,785**
Commercial paper	**196,271**	**120,626**
Australian facilities	**67,988**	**29,451**
Current maturities of long-term debt	**55,285**	**264,302**
Other borrowings by foreign subsidiaries	**26,566**	**78,491**
	$425,789	**$553,655**

The Company had two Australian short-term credit facilities with combined maximum available borrowings of Australian $135,000,000 as of December 31, 2000. The facilities had a weighted average interest rate of 6.5% at December 31, 2000 and 5.3% at December 31, 1999.

The weighted average interest rate on other foreign borrowings was 5.1% at December 31, 2000 and 4.2% at December 31, 1999.

In 1999, the Company entered into a $400,000,000 Line of Credit Agreement. In 2000, the Company extended the termination date of the Line of Credit from June 28, 2000 to June 22, 2001. No amounts were outstanding under this facility at December 31, 2000.

On November 10, 2000, the Company entered into a $300,000,000 Line of Credit Agreement with a maturity date of June 22, 2001. No amounts were outstanding under this facility at December 31, 2000.

Accrued Expenses as of December 31, 2000 and 1999 consisted of accruals for:

In thousands	2000	1999
Compensation and employee benefits	**$279,207**	**$291,419**
Warranties and accrued maintenance service agreements	**88,869**	**94,278**
Taxes other than income	**50,393**	**39,349**
Deferred investment income	**42,211**	**42,211**
Other	**365,427**	**438,958**
	$826,107	**$906,215**

Long-Term Debt at December 31, 2000 and 1999 consisted of the following:

In thousands	2000	1999
5.875% notes due March 1, 2000	$ —	$ 125,000
10.5% notes due September 15, 2000	—	100,000
6.875% notes due November 15, 2008	150,000	150,000
5.75% notes due March 1, 2009	500,000	500,000
6.59% nonrecourse note due semiannually through December 31, 2005	185,500	201,500
7.00% nonrecourse note due semiannually through November 30, 2006	244,884	254,203
6.44% nonrecourse note due semiannually from August 31, 2002 through February 29, 2008	217,440	217,440
Commercial paper	250,000	—
Other, including capitalized lease obligations	56,499	76,905
	1,604,323	1,625,048
Current maturities	(55,285)	(264,302)
	$1,549,038	$1,360,746

In 1990, the Company issued redeemable $100,000,000 of 10.5% notes due September 15, 2000, at 99.304% of face value. The effective interest rate of the notes was 10.6%. The Company repaid the notes on September 15, 2000. The quoted market price of the notes exceeded the carrying value by approximately $2,328,000 at December 31, 1999.

In 1993, the Company issued $125,000,000 of 5.875% notes due March 1, 2000, at 99.744% of face value. The effective interest rate of the notes was 5.9%. The Company repaid the notes on March 1, 2000. The quoted market price of the notes was below the carrying value by approximately $20,000 at December 31, 1999.

In 1998, the Company issued $150,000,000 of 6.875% notes due November 15, 2008, at 99.228% of face value. The effective interest rate of the notes is 6.9%. The quoted market price of the notes was below the carrying value by approximately $2,813,000 at December 31, 2000 and $14,039,000 at December 31, 1999.

In 1999, the Company issued redeemable $500,000,000 of 5.75% notes due March 1, 2009, at 99.281% of face value. The effective rate of the notes is 5.8%. The quoted market price of the notes was below the carrying value by approximately $20,781,000 at December 31, 2000 and $52,109,000 at December 31, 1999.

The Company issued a $256,000,000, 6.28% nonrecourse note at face value in December 1995, a $266,265,000, 7.0% nonrecourse note at face value in December 1996 and a $217,440,000, 6.44% nonrecourse note at face value in December 1997. In 1997, the Company refinanced the 6.28% nonrecourse note with a 6.59% nonrecourse note with similar terms. The holders of these notes only have recourse against the commercial mortgage loans, commercial real estate and net swap receivables, which are included in investments. The estimated fair value of the three nonrecourse notes, based on discounted cash flows, exceeded the carrying value by $21,619,000 at December 31, 2000, and $23,591,000 at December 31, 1999.

In 1992, the Company entered into a $300,000,000 revolving credit facility (RCF). In 1994, the Company canceled $150,000,000 of the RCF. In 1996, the Company amended the RCF to increase the maximum available borrowings to $250,000,000 and extended the commitment termination date to May 30, 2001. In September 1998, the Company amended the RCF to increase the maximum available borrowings to $350,000,000 and extend the termination date to September 30, 2003. The amended RCF provides for borrowings under a number of options and may be reduced or canceled at any time at the Company's option. There were no amounts outstanding under this facility as of December 31, 2000 or 1999. The amended RCF contains financial covenants establishing a maximum total debt to total capitalization percentage and a minimum consolidated tangible net worth. The Company was in compliance with these covenants at December 31, 2000.

Commercial paper is issued at a discount and generally matures 30 to 90 days from the date of issuance. The weighted average interest rate on commercial paper was 6.4% at December 31, 2000 and 5.0% at December 31, 1999. In 2000, the commercial paper balance expected to remain outstanding beyond one year has been classified as long-term, reflecting the Company's intent and ability to finance the borrowings on a long-term basis. The remaining commercial paper balance has been classified as short-term.

Other debt outstanding at December 31, 2000, bears interest at rates ranging from 2.4% to 10.1%, with maturities through the year 2018.

Scheduled maturities of long-term debt for the years ended December 31 are as follows:

In thousands	
2002	$ 44,956
2003	295,518
2004	46,022
2005	187,622
2006 and future years	974,920
	$1,549,038

Other Noncurrent Liabilities at December 31, 2000 and 1999 consisted of the following:

In thousands	2000	1999
Deferred investment income	$186,515	$228,724
Postretirement benefit obligation	307,732	283,231
Preferred stock of subsidiaries	60,000	60,000
Other	281,574	266,774
	$835,821	$838,729

Preferred Stock, without par value, of which 300,000 shares are authorized, is issuable in series. The Board of Directors is authorized to fix by resolution the designation and characteristics of each series of preferred stock. The Company has no present commitments to issue its preferred stock.

Common Stock, with a par value of $.01, **Additional Paid-In-Capital** and **Common Stock Held in Treasury** transactions during 2000, 1999 and 1998 are shown below.

	Common Stock		Additional Paid-in-Capital	Common Stock Held in Treasury	
In thousands except shares	Shares	Amount	Amount	Shares	Amount
Balance, December 31, 1997	305,627,908	$ 3,056	$ 704,431	(6,087,119)	$(237,931)
During 1998 —					
Shares surrendered on exercise of stock options	(28,334)	—	(1,679)	(3,163)	(176)
Tax benefits related to stock options exercised	—	—	19,064	—	—
Repurchase of treasury stock	—	—	—	(1,167,704)	(45,267)
Shares issued for stock incentive and restricted stock grants	551,399	6	9,006	1,199,078	44,872
Balance, December 31, 1998	306,150,973	3,062	730,822	(6,058,908)	(238,502)
During 1999 —					
Shares surrendered on exercise of stock options	(54,437)	(1)	(3,703)	(72,633)	(3,449)
Tax benefits related to stock options exercised	—	—	22,497	—	—
Repurchase of treasury stock	—	—	—	(1,058,611)	(44,995)
Shares issued for stock incentive and restricted stock grants	713,019	7	13,180	957,503	40,118
Cash paid for Premark's fractional shares	(8,226)	—	(601)	—	—
Cancellation of Premark's treasury shares	(5,972,113)	(60)	(244,985)	5,972,113	245,045
Balance, December 31, 1999	300,829,216	3,008	517,210	(260,536)	(1,783)
During 2000 —					
Shares surrendered on exercise of stock options	(47,015)	—	(2,753)	(2,354)	(138)
Tax benefits related to stock options exercised	—	—	29,391	—	—
Shares issued for acquisitions	213,897	2	12,363	—	—
Shares issued for stock incentive and restricted stock grants	1,712,996	17	28,146	2,354	138
Balance, December 31, 2000	302,709,094	$ 3,027	$ 584,357	(260,536)	$ (1,783)
Authorized, December 31, 2000	350,000,000				

Cash Dividends declared were $.76 per share in 2000, $.65 per share in 1999 and $.53 per share in 1998. Cash dividends paid were $.74 per share in 2000, $.61 per share in 1999 and $.50 per share in 1998.

Comprehensive Income — During 1998, the Company adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, which established standards for reporting and displaying comprehensive income and its components in a separate financial statement. Comprehensive Income is defined as the changes in equity during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company's only component of other comprehensive income is foreign currency translation adjustments.

Stock Options have been issued to officers and other employees under ITW's 1996 Stock Incentive Plan and Premark's 1994 Incentive Plan. At December 31, 2000, 24,403,352 shares were reserved for issuance under these plans. Option prices are 100% of the common stock fair market value on the date of grant. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), allows the recognition of compensation cost related to employee stock options. The Company has elected to continue to apply Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, which does not require that compensation cost be recognized. The pro forma net income effect of applying SFAS 123 was as follows:

In thousands except per share data	2000	1999	1998
Net Income:			
As reported	$957,980	$841,112	$809,747
Pro forma	941,239	807,301	797,152
Net income per basic share:			
As reported	$3.18	$2.80	$2.70
Pro forma	3.12	2.69	2.66
Net income per diluted share:			
As reported	$3.15	$2.76	$2.66
Pro forma	3.09	2.65	2.62

The estimated fair value of each option granted by ITW and Premark is calculated using the Black-Scholes option pricing model. The following summarizes the assumptions used in the model:

	ITW			PREMARK	
	2000	1999	1998	1999	1998
Risk-free interest rate	5.4%	6.5%	4.8%	5.8%	5.1%
Expected stock volatility	28.4%	27.1%	24.5%	28.7%	27.0%
Dividend yield	1.04%	1.11%	1.20%	1.20%	1.30%
Expected years until exercise	5.7	5.5	5.5	5.1	5.1

Stock option activity during 2000, 1999 and 1998, including the retroactive effect of converting Premark's options into ITW options, is summarized as follows:

	2000		1999		1998	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Under option at beginning of year	11,950,643	$34.41	11,849,368	$27.74	11,562,274	$21.85
Granted	3,248,479	55.88	1,864,925	60.30	1,990,834	49.36
Exercised	(1,711,453)	15.90	(1,667,509)	15.56	(1,651,251)	12.23
Canceled or expired	(163,466)	34.81	(96,141)	42.83	(52,489)	36.78
Under option at end of year	13,324,203	42.01	11,950,643	34.41	11,849,368	27.74
Exercisable at year-end	8,228,561		9,100,013		6,599,519	
Available for grant at year-end	11,079,149		14,114,802		15,687,710	
Weighted average fair value of options granted during the year		$19.03		$20.69		$14.39

The following table summarizes information on stock options outstanding as of December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable 2000	Weighted Average Exercise Price
$ 2.13–16.25	1,676,635	2.86 years	$12.93	1,676,635	$12.93
16.42–31.43	2,931,925	4.52 years	23.71	2,931,925	23.71
33.38–46.59	1,986,424	7.14 years	39.46	1,906,424	39.71
51.06–65.50	6,729,219	8.96 years	57.99	1,713,577	58.01
	13,324,203	6.95 years	42.01	8,228,561	32.36

Segment Information — In 1998, the Company adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131"). SFAS 131 requires that segment information be reported based on the way the segments are organized within the Company for making operating decisions and assessing performance.

The Company has approximately 600 operations in 43 countries which are aggregated and organized for internal reporting purposes into the following six segments:

Engineered Products — North America: Businesses that are located in North America and that manufacture short lead-time plastic and metal components and fasteners, and specialty products such as polymers, fluid products, and resealable packaging.

Engineered Products — International: Businesses that are located outside North America and that manufacture short lead-time plastic and metal components and fasteners, and specialty products such as polymers, fluid products, and electronic component packaging.

Specialty Systems — North America: Businesses that are located in North America and that produce longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial finishing.

Specialty Systems — International: Businesses that are located outside North America and that manufacture longer lead-time machinery and related consumables, and specialty equipment for applications such as food service and industrial finishing.

Consumer Products: Businesses that are located primarily in North America and that manufacture specialty exercise equipment, small electrical appliances, cookware and ceramic tile.

Leasing & Investments: Businesses that make opportunistic investments in mortgage-related assets, leveraged and direct financing leases of equipment, properties and property developments and affordable housing.

Segment information for 2000, 1999 and 1998 was as follows:

In thousands	2000	1999	1998
Operating Revenues:			
Engineered Products — North America	$3,184,033	$2,964,782	$2,562,324
Engineered Products — International	1,516,202	1,321,658	1,036,342
Specialty Systems — North America	3,337,387	3,161,435	2,904,662
Specialty Systems — International	1,729,559	1,599,988	1,581,857
Consumer Products	483,036	501,224	488,634
Leasing & Investments	154,277	157,385	149,748
Intersegment revenues	(420,917)	(373,287)	(336,596)
	$9,983,577	$9,333,185	$8,386,971
Operating Income:			
Engineered Products — North America	$ 610,321	$ 561,742	$ 477,547
Engineered Products — International	153,792	132,808	127,260
Specialty Systems — North America	559,738	537,555	468,352
Specialty Systems — International	169,705	154,022	155,110
Consumer Products	(14,016)	15,326	12,925
Leasing & Investments	83,897	84,931	67,552
Premark merger-related costs	—	(81,020)	—
	$1,563,437	$1,405,364	$1,308,746
Depreciation and Amortization:			
Engineered Products — North America	$ 117,973	$ 103,373	$ 92,164
Engineered Products — International	99,148	66,405	47,407
Specialty Systems — North America	105,903	99,350	85,537
Specialty Systems — International	67,258	51,296	48,648
Consumer Products	22,078	21,793	21,708
Leasing & Investments	1,010	1,067	1,103
	$ 413,370	$ 343,284	$ 296,567
Plant & Equipment Additions:			
Engineered Products — North America	$ 110,386	$ 126,926	$ 132,760
Engineered Products — International	68,808	63,774	44,923
Specialty Systems — North America	75,389	84,774	77,773
Specialty Systems — International	51,240	41,880	46,291
Consumer Products	8,090	18,534	14,371
Leasing & Investments	—	30	—
	$ 313,913	$ 335,918	$ 316,118
Identifiable Assets:			
Engineered Products — North America	$1,791,820	$1,707,587	$1,461,483
Engineered Products — International	1,457,620	1,447,076	983,371
Specialty Systems — North America	2,338,956	1,997,290	1,793,334
Specialty Systems — International	1,522,339	1,334,996	1,340,921
Consumer Products	331,874	372,484	378,505
Leasing & Investments	1,408,984	1,449,649	1,531,804
Corporate	751,863	751,177	723,070
	$9,603,456	$9,060,259	$8,212,488

Identifiable assets by segment are those assets that are specifically used in that segment. Corporate assets are principally cash and equivalents, investments and other general corporate assets.

Enterprise-wide information for 2000, 1999 and 1998 was as follows:

In thousands	2000	1999	1998
Operating Revenues by Product Line:			
Engineered Products — North America —			
Fasteners & Components	$2,526,342	$2,343,140	$2,070,502
Specialty Products	657,691	621,642	491,822
	$3,184,033	$2,964,782	$2,562,324
Engineered Products — International —			
Fasteners & Components	$1,324,489	$1,178,569	$ 963,953
Specialty Products	191,713	143,089	72,389
	$1,516,202	$1,321,658	$1,036,342
Specialty Systems — North America —			
Equipment & Consumables	$1,757,099	$1,677,814	$1,637,756
Specialty Equipment	1,580,288	1,483,621	1,266,906
	$3,337,387	$3,161,435	$2,904,662
Specialty Systems — International —			
Equipment & Consumables	$1,051,167	$ 899,986	$ 892,537
Specialty Equipment	678,392	700,002	689,320
	$1,729,559	$1,599,988	$1,581,857
Consumer Products	$ 483,036	$ 501,224	$ 488,634
Operating Revenues by Geographic Region:			
United States	$6,497,622	$6,195,574	$5,608,719
Europe	2,411,534	2,275,311	2,052,953
Asia	371,553	295,788	217,440
Other	702,868	566,512	507,859
	$9,983,577	$9,333,185	$8,386,971

Total noncurrent assets excluding deferred tax assets and financial instruments were $5,129,000,000 and $4,724,000,000 at December 31, 2000 and 1999, respectively. Of these amounts, approximately 63% was attributed to U.S. operations for both years. The remaining amounts were attributed to the Company's foreign operations, with no single country accounting for a significant portion.

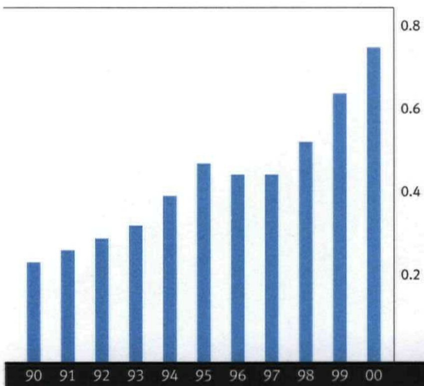
Quarterly Financial Data (Unaudited)

In thousands except per share amounts	Three Months Ended March 31 2000	March 31 1999	June 30 2000	June 30 1999	September 30 2000	September 30 1999	December 31 2000	December 31 1999
Operating revenues	$2,404,960	$2,156,657	$2,577,446	$2,363,450	$2,472,342	$2,325,749	$2,528,829	$2,487,329
Cost of revenues	1,571,930	1,411,567	1,652,275	1,518,449	1,597,669	1,511,405	1,663,355	1,601,127
Operating income	358,303	304,497	446,503	394,093	434,263	382,086	324,368	324,688
Net income	219,129	188,432	273,272	239,716	264,085	232,922	201,494	180,042
Net income per share:								
Basic	.73	.63	.91	.80	.87	.78	.67	.60
Diluted	.72	.62	.90	.79	.87	.76	.66	.59

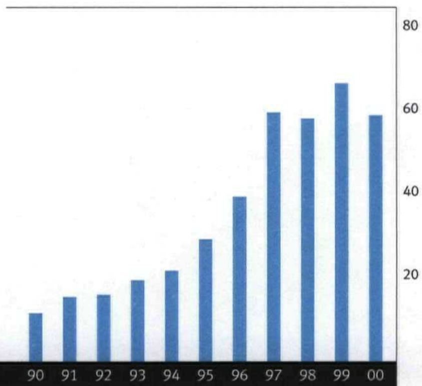
Common Stock Price and Dividend Data — The common stock of Illinois Tool Works Inc. is listed on the New York Stock Exchange and the Chicago Stock Exchange. Quarterly market price and dividend data for 2000 and 1999 were as shown below:

	Market Price Per Share High	Market Price Per Share Low	Dividends Declared Per Share
2000			
Fourth quarter	$61.75	$49.50	$.200
Third quarter	59.94	51.00	.200
Second quarter	65.38	54.19	.180
First quarter	69.00	51.06	.180
1999			
Fourth quarter	$80.25	$61.44	$.180
Third quarter	81.81	69.25	.173
Second quarter	82.00	59.81	.148
First quarter	72.63	58.13	.146

The approximate number of holders of record of common stock as of February 6, 2001 was 17,961. This number does not include beneficial owners of the Company's securities held in the name of nominees.



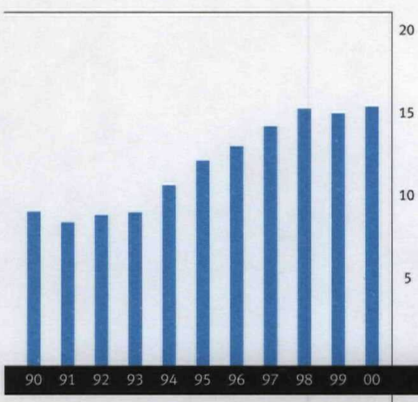
Dividends Declared Per Share
In Dollars



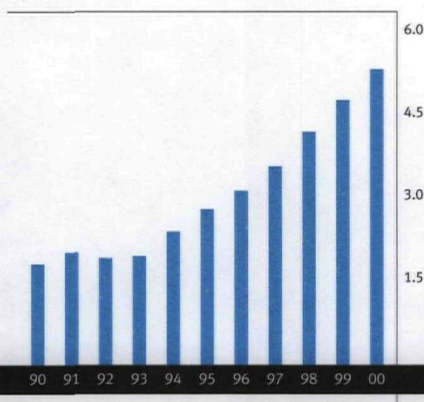
Market Price at Year End
In Dollars

Eleven-Year Financial Summary

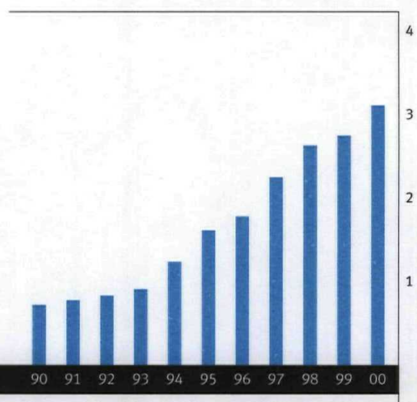
Dollars and shares in thousands except per share amounts	2000	1999	1998
Income:			
Operating revenues	$9,983,577	9,333,185	8,386,971
Cost of revenues	$6,485,229	6,042,548	5,485,533
Selling, administrative and research and development expenses	$1,813,455	1,730,031	1,542,684
Amortization of goodwill and other intangible assets	$ 121,456	74,222	50,008
Premark merger-related costs	$ —	81,020	—
Operating income	$1,563,437	1,405,364	1,308,746
Interest expense	$ (72,377)	(67,510)	(29,216)
Other income (expense)	$ (12,880)	14,858	1,017
Income from continuing operations before income taxes	$1,478,180	1,352,712	1,280,547
Income taxes	$ 520,200	511,600	470,800
Income from continuing operations	$ 957,980	841,112	809,747
Income (loss) from discontinued operations (net of tax)	$ —	—	—
Cumulative effect of changes in accounting principles (net of tax)	$ —	—	—
Net income	$ 957,980	841,112	809,747
Net income per common share — assuming dilution (a):			
Income from continuing operations	$ 3.15	2.76	2.66
Income (loss) from discontinued operations	$ —	—	—
Cumulative effect of changes in accounting principles	$ —	—	—
Net income	$ 3.15	2.76	2.66
Financial Position:			
Net working capital	$1,511,451	1,227,570	1,176,163
Net plant and equipment	$1,722,524	1,633,931	1,492,270
Total assets	$9,603,456	9,060,259	8,212,488
Long-term debt	$1,549,038	1,360,746	1,208,046
Total debt	$1,974,827	1,914,401	1,636,065
Stockholders' equity	$5,400,987	4,815,423	4,243,372
Other Data:			
Operating income margin	% 15.7	15.1	15.6
Return on operating revenues	% 9.6	9.0	9.7
Return on average stockholders' equity	% 18.8	18.6	20.6
Cash dividends paid	$ 223,009	183,587	150,934
Per share — paid	$ .74	.61	.50
— declared	$ .76	.65	.53
Book value per share	$ 17.86	16.02	14.14
Common stock market price at year-end	$ 59.56	67.56	58.00
Total debt to total capitalization	% 26.8	28.4	27.8
Total debt to total capitalization (excluding Leasing & Investments segment)	% 18.6	17.8	14.3
Shares outstanding at December 31	302,449	300,569	300,092
Weighted average shares outstanding	301,573	300,158	299,912
Plant and equipment additions	$ 313,913	335,918	316,118
Depreciation	$ 291,914	269,062	246,559
Research and development expenses	$ 114,484	114,605	101,578
Employees at December 31	55,300	52,800	48,500



Operating Income Margin
In Percent



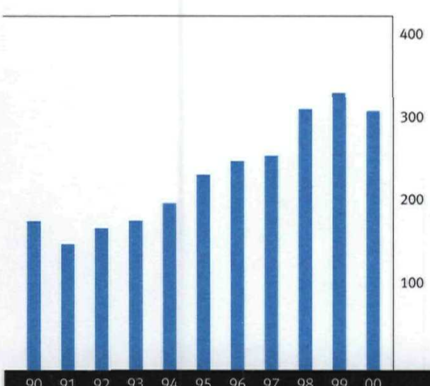
Stockholders' Equity
In Bilions of Dollars



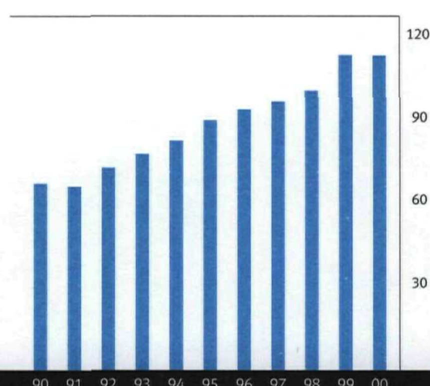
Diluted Income from Continuing Operations Per Share
In Dollars

(a) Includes Premark charges of $.18 in 2000 and $.23 in 1999.

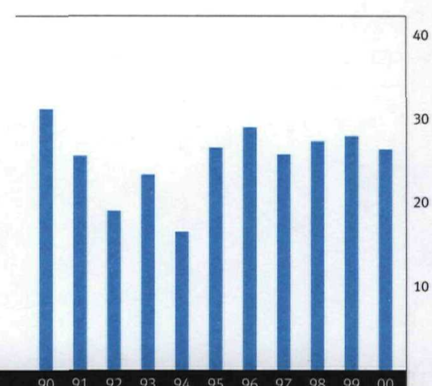
1997	1996	1995	1994	1993	1992	1991	1990
7,627,263	7,264,281	6,391,480	5,579,655	5,026,774	4,645,288	4,379,078	4,246,417
5,010,571	4,823,840	4,239,196	3,747,254	3,421,482	3,119,548	2,941,484	2,843,847
1,469,973	1,438,223	1,328,523	1,189,895	1,114,142	1,070,051	1,021,332	980,224
41,431	36,512	31,849	32,859	30,714	31,219	33,947	28,328
—	—	—	—	—	—	—	—
1,105,288	965,706	791,912	609,647	460,436	424,470	382,315	394,018
(31,498)	(44,134)	(56,591)	(47,012)	(50,393)	(61,514)	(72,871)	(66,596)
26,650	(36,837)	10,118	205	2,774	11,542	29,016	15,703
1,100,440	884,735	745,439	562,840	412,817	374,498	338,460	343,125
408,851	340,813	278,077	213,247	154,253	140,783	123,429	144,864
691,589	543,922	467,362	349,593	258,564	233,715	215,031	198,261
—	62,200	158,700	154,700	122,000	(40,000)	64,200	32,600
—	—	—	—	—	(172,524)	—	—
691,589	606,122	626,062	504,293	380,564	21,191	279,231	230,861
2.27	1.80	1.62	1.25	.92	.84	.79	.73
—	.21	.55	.55	.43	(.14)	.23	.12
—	—	—	—	—	(.62)	—	—
2.27	2.01	2.17	1.80	1.35	.08	1.02	.85
1,232,862	1,076,167	958,158	915,600	848,706	754,318	613,641	868,255
1,266,689	1,178,173	1,078,860	1,007,591	948,121	902,292	914,633	894,131
7,171,407	6,484,251	5,576,352	4,086,146	3,705,047	3,543,073	3,538,665	3,429,311
966,628	934,847	737,257	394,887	497,941	372,879	429,282	752,832
1,279,606	1,328,772	1,046,445	487,189	608,414	461,440	713,789	851,552
3,615,221	3,171,924	2,832,175	2,412,105	1,967,793	1,945,659	2,035,677	1,840,546
14.5	13.3	12.4	10.9	9.2	9.1	8.7	9.3
9.1	7.5	7.3	6.3	5.1	5.0	4.9	4.7
20.4	18.1	17.8	16.0	13.2	11.7	11.1	11.3
128,396	142,281	129,783	104,462	88,975	79,290	70,008	62,861
.43	.48	.45	.38	.32	.29	.26	.23
.45	.45	.48	.40	.33	.30	.27	.24
12.07	10.63	9.91	8.63	7.08	7.06	7.45	6.85
60.13	39.94	29.50	21.88	19.50	16.31	15.94	12.07
26.1	29.5	27.0	16.8	23.6	19.2	26.0	31.6
6.8	15.3	18.2	16.8	23.6	19.2	26.0	31.6
299,541	298,461	285,844	279,557	277,860	275,425	273,139	268,839
299,663	297,706	285,604	278,202	277,428	274,653	272,261	268,466
260,102	252,757	235,876	200,555	180,431	172,013	152,736	179,783
216,680	214,785	195,525	177,787	172,248	162,709	153,855	138,404
97,821	94,800	90,800	83,800	78,400	73,800	66,800	67,800
42,900	40,700	38,600	36,100	34,900	34,000	34,500	35,200



Plant and Equipment Additions
In Millions of Dollars



Research and Development Expenses
In Millions of Dollars



Total Debt to Total Capitalization
In Percent

Corporate Executives

W. James Farrell
Chairman and Chief Executive Officer, 35 Years of Service

Harold B. Smith
Chairman of the Executive Committee, 46 Years of Service

Frank S. Ptak
Vice Chairman, 25 Years of Service

James M. Ringler
Vice Chairman, 11 Years of Service

Russell M. Flaum
Executive Vice President, 25 Years of Service

David T. Flood
Executive Vice President, 22 Years of Service

Philip M. Gresh, Jr.
Executive Vice President, 11 Years of Service

Thomas J. Hansen
Executive Vice President, 21 Years of Service

Dennis J. Martin
Executive Vice President, 9 Years of Service

David B. Speer
Executive Vice President, 23 Years of Service

Hugh J. Zentmyer
Executive Vice President, 33 Years of Service

Stewart S. Hudnut
Senior Vice President, General Counsel and Secretary
9 Years of Service

John Karpan
Senior Vice President, Human Resources
11 Years of Service

Jon C. Kinney
Senior Vice President and Chief Financial Officer
28 Years of Service

Allan C. Sutherland
Senior Vice President, Leasing and Investments
8 Years of Service

Directors

W. James Farrell
Chairman and Chief Executive Officer
Illinois Tool Works Inc.
Director since 1995

Harold B. Smith
Chairman of the Executive Committee
Illinois Tool Works Inc.
Director since 1968

William F. Aldinger III
Chairman and Chief Executive Officer
Household International, Inc. (financial services)
Director since 1998

Michael J. Birck
Chairman
Tellabs, Inc. (telecommunications)
Director since 1996

Marvin D. Brailsford
Vice President
Kaiser-Hill Company LLC
(construction and environmental services)
Director since 1996

Susan Crown
Vice President
Henry Crown and Company (diversified investments)
Director since 1994

H. Richard Crowther
Retired Vice Chairman
Illinois Tool Works Inc.
Director since 1995

Don H. Davis, Jr.
Chairman and Chief Executive Officer
Rockwell International Corporation
(electronic controls and communications)
Director since 2000

Robert C. McCormack
Partner
Trident Capital L.P. (venture capital)
Director since 1993, previously 1978–1987

Phillip B. Rooney
President
ServiceMaster Management Services
(a network of quality service companies)
Director since 1990

Edward Byron Smith
Honorary Director, Director 1938–93

Corporate Information

Transfer Agent and Registrar
Computershare Investor Services, L.L.C., 2 North LaSalle Street, Chicago, IL 60602, 888.829.7424

Auditors
Arthur Andersen LLP, 33 West Monroe Street, Chicago, IL 60603

Common Stock
Common stock is listed on the New York Stock Exchange and Chicago Stock Exchange. Symbol — ITW

Annual Meeting
Friday, May 11, 2001, 3:00 p.m.
The Northern Trust Company, 50 South LaSalle Street, Chicago, IL 60675

Stock and Dividend Action
Effective with the October 19, 2000, payment, the quarterly cash dividend on ITW common stock was increased 11 percent to 20 cents a share. This represents an increase of 8 cents per share annually. ITW's annual dividend payment has increased 38 consecutive years, except during a period of government controls in 1971.

Dividend Reinvestment Plan
The ITW Common Stock Dividend Reinvestment Plan enables registered shareholders to reinvest the ITW dividends they receive in additional shares of common stock of the Company at no additional cost. Participation in the plan is voluntary, and shareholders may join or withdraw at any time. The plan also allows for additional voluntary cash investments in any amount from $100 to $10,000 per month. For a brochure and full details of the program, please direct inquiries to:
Computershare Trust Company, Dividend Reinvestment Service, P.O. Box A3309, Chicago, IL 60690, 888.829.7424

Shareholders Information
Questions regarding stock ownership, dividend payments or change of address should be directed to the Company's transfer agent, Computershare Investor Services. Computershare Shareholders Service Department may be reached at 888.829.7424.

For additional assistance regarding stock holdings, please contact Doris Dyer, shareholder relations, 847.657.4077.

Security analysts and investment professionals should contact the Company's Vice President of Investor Relations, John L. Brooklier, 847.657.4104.

Shareholder and Investor Relations may be reached at:
Illinois Tool Works Inc., 3600 West Lake Avenue, Glenview, IL 60025
Telephone: 847.724.7500, Facsimile: 847.657.4261

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Telephone: 630.438.5300
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Telephone: 44.1344.860166
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160 Bernard Street, P.O. Box 135, Southland Centre, Cheltenham, Victoria 3192, Australia
Telephone: 61.3.9585.0633

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Some of Signode's plastic strapping is made from post-consumer strapping and PET beverage bottles. The Company has collection programs for both these materials.

For more information about post-consumer strapping recycling and post-consumer PET bottles (large volume only), please contact:
ITW Signode
7080 Industrial Road, Florence, KY 41042
Telephone: 859.342.6400

Internet Home Page
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